Finance Minute on Report 184— Internal Audit in the Australian Public Service

THE SENATE

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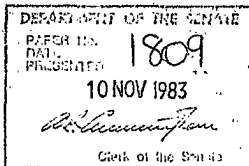
THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

211TH REPORT

FINANCE MINUTE ON THE COMMITTEE'S 184TH REPORT -
INTERNAL AUDIT IN THE AUSTRALIAN PUBLIC SERVICE

JOINT COMMITTEE OF PUBLIC ACCOUNTS

FOURTEENTH COMMITTEE

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	P.N.D. WHITE, M.C., M.P.

*Ex-officio member being Chairman,
House of Representatives Standing Committee
on Expenditure

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DUTIES OF THE COMMITTEE

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

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.

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Arrangements to ensure that appropriate action is taken in response to comments contained in the Committee's Reports have been in operation since 1952 although they have been reviewed periodically. These were known as Treasury Minute arrangements.

Following the creation of the Department of Finance on 7 December 1976 it was agreed that the arrangements should continue as before but should be known as the Department of Finance Minute.

As they now stand the procedures are:

1. The Report of the Committee is tabled in both Houses of Parliament and motions are moved in both places that the Report be printed as a Parliamentary Paper.

2. The Chairman of the Committee thereafter forwards a copy of the Report to the responsible Minister and to the Minister for Finance with a request that he give the Report his consideration and inform the Chairman of the action taken to deal with the Committee's conclusions.

3. The reply received, in the form of a Department of Finance Minute, is then examined by the Committee and, together with the conclusions of the Report to which it relates, is submitted as soon as possible as a report to the Parliament.

4. Should the Committee find during its examination of a Department of Finance Minute that certain recommendations are not fully dealt with or are subject to a further Minute, it holds an exploratory discussion with officers of the Department of Finance prior to the submission of the Minute to the Parliament.

5. In reporting a Minute to the Parliament, the Committee, except in special cases does not usually make any comment other than to note recommendations not fully dealt with or subject to a further Minute.

6. When the Committee next examines the Department concerned the Department of Finance Minute is considered by the Committee if applicable.

7.   The Department of Finance furnishes the
Committee with a half-yearly report on
outstanding Minutes, indicating the progress
made in dealing with the Committee's comments.

       In accordance with the procedures outlined above,
this report documents the Department of Finance Minute which
was submitted in response to the Committee's 184th Report.

For and on behalf of the Committee.

                                          Senator G. Georges
                                          Chairman

M.J. Talberg
Secretary
Joint Committee of Public Accounts
Parliament House
Canberra
27 October 1983

CHAPTER 1

INTRODUCTION

1.1   The Committee's 184th Report, which took the form of a
discussion paper on Internal Audit in the Australian Public
Service, was tabled in Parliament on 11 February 1981. A summary
of that report appears in Chapter 2. The recommendations,
together with the Department of Finance Minute submitted on 8
August 1983, appear in Chapter 3.

1.2   A detailed interim response was provided to the
Committee in 1982. This has now been updated to incorporate
further changes since that time. Although the Committee is
generally satisfied with both the timing and content of the
response to its 184th Report, it does have reservations about
several areas. These are detailed in the next three paragraphs.

1.3   In response to Recommendation 2, the Board estimates
that adequate ADP audit capability may not be achieved in some
departments 'until the end of 1983 or 1984 and in some cases
1985'. The Committee is concerned about this quite considerable
delay particularly in view of the fact that the Committee's
Report was released early in 1981.

1.4   With reference to Recommendation 4, the Committee feels
that it is very important that the Auditor-General's Office
should continue to assess the 'auditability' of new ADP systems
whenever possible. The Committee is also concerned by the
Auditor-General's statement that 'departments had become somewhat
more conservative regarding the attainment of an adequate level
of ADP expertise'.

1.5   While recognising that changes have taken place in the
classifications of internal audit staff the Committee is
nevertheless concerned that since 1979, the total numbers of
audit staff have decreased in some departments. The Committee is
particularly concerned to see this trend in the Department of
Defence, the Taxation Office, the Department of Aboriginal
Affairs and the Department of Aviation (see Table 2, page 18).

1.6   Nevertheless, the Committee is pleased that many of its
recommendations have been accepted. The main policy developments
which have resulted either from the 1977 Joint Management Review
of Internal Audit or from the Committee's recommendations have
been as follows:

       .   establishment of the Joint Implementation
              Committee on Internal Audit (JIC) to assist
              the Public Service Board and departments in
              implementing the follow-up action arising from
              the Joint Management Review;

- establishment of the Interdepartmental Advisory Committee on Internal Audit (IDAC);

- twenty departments/authorities now have internal audit committees consisting of Second Division officers and chaired by Permanent Heads, Deputy Secretaries or First Assistant Secretaries;

- progress has been made in the area of ADP auditing - this has been encouraged through an IDAC paper circulated in June 1981 and entitled 'The Development of Departmental Arrangements for ADP Auditing';

- the Public Service Board has issued, in Volume 4 of its Personnel Management Manual, seven sets of guidelines for departments on different aspects of computer based systems - these provide a starting point for the planning of ADP audits;

- classification of the Chief Internal Auditor position has been raised in 24 organisations - in six departments this position is in the Second Division and in most others it is at the top of the Third Division;

- most departments have reorganised their internal audit positions so that there has been a overall trend of upward movement in their classification;

- in all organisations surveyed in 1982 the control of the internal audit function had been centralised.

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SUMMARY OF THE COMMITTEE'S 184TH REPORT

2.1   The Committee regards internal audit as an essential means by which management may monitor the effectiveness of management controls and keep informed of the reliability and appropriateness of the systems and procedures it employs. This report did not result from a specific reference or inquiry. Instead, it is a discussion paper arising from the Committee's long standing interest in the quality of administration within the Public Service, and a desire to support the Public Service Board's initiatives in this area.

2.2   It is based on the collective experience of the Committee over many years as well as discussions with Government departments, academics, professional accounting and auditing bodies and leading organisations in the private sector.

2.3   The paper looks at some of the problems of internal audit, ranging from its historical background to the work being undertaken to increase its effectiveness. The Committee hoped that this report would stimulate further consideration of the broader dimension of the problem and suggestions for the development of a balanced approach towards achieving a solution.

2.4   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. The findings of the 1977 Public Service Board review of Internal Audit 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.

2.5   The 184th Report stresses that 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 in the light of Section 2AB of the Audit Act 1901.

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

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

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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. Major recommendations included:

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

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

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

  All departments and authorities presently develoing 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 Auditibility and Control (SAC) Study**
  Departments and authorities should study the SAC reports prior to the introduction or upgrading of their ADP audit capability.

- **Career Structures and Development**
  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.

  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 organisations to develop appropriate formal courses of study in auditing.

  A program of staff rotation between the internal audit function and other areas of the organisations 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**
  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**
  Departments and authorities should review the structure of their internal audit function and consolidate it on a centralised basis.

  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**
  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

DEPARTMENT OF FINANCE MINUTE ON THE 184TH REPORT

Background (Department of Finance)

3.1   By arrangement, the Public Service Board prepared a response to this Report early in 1982 based on the responses to questionnaires to departments and authorities staffed under the Public Service Act and other data then available to the Board. A Department of Finance Minute incorporating the Public Service Board's response which gave an overview of the Internal Audit function in the Australian Public Service together with responses to the Committee's recommendations was subsequently forwarded to the Committee.

3.2   As indicated in that Minute and, as evidenced by additional material provided to the Committee by the Board progressively throughout 1982 and the first half of 1983, the Internal Audit function in the Service has been an area of rapid change. At the suggestion of the Committee the Board's earlier response has been revised to incorporate new information and material so as to reflect the position at 30 June 1983. This new Finance Minute incorporates the revised Public Service Board response.

Introduction (Public Service Board)

3.3   The JCPA Discussion Paper was welcomed as a significant contribution to the continuing development of internal audit in the Service. To enable the Committee to get a perspective on developments since the release of its Discussion Paper and to provide up-to-date information, this response incorporates the results of a survey completed earlier this year (see paragraph 21 below). More recent data on training and staffing is also included. Following on from the 1977 Joint Management Review of Internal Audit the Public Service Board agreed that there was a need to promote the efficient performance of the internal audit function. It endorsed training and development programs and interdepartmental machinery was set-up to implement and facilitate the remedial programs.

3.4   Two Committees were formed – the Joint Implementation Committee on Internal Audit (JIC) and the Interdepartmental Advisory Committee on Internal Audit (IDAC). The primary role of the JIC is to assist the Board, and departments, in implementing the follow-up action arising from the JMR on Internal Audit and other remedial programs approved by the Board and to take such other associated action as it thinks desirable to facilitate and encourage the development of internal auditing. Membership is at Division Head level from the Department of Finance, the Auditor-General's Office and the PSB (alternate Chairman). It is chaired by the Board's consultant on internal audit, Mr F.C. Pryor, OBE.

3.5   The role of the Interdepartmental Advisory Committee (which is also chaired by Mr Pryor) is to assist and advise on such matters as:

- the promotion of the development program and the fostering of an 'esprit de corps' in internal auditing;

- assessments of the form and content of the training courses;

- reviews of problems in particular areas such as ADP auditing including advice as to how scarce staff resources can best be utilised and what training courses should be provided in this area;

- advice on ways in which internal audit might best be organised; and

- advice on internal audit standards and procedures.

3.6   Twelve organisations are represented on IDAC, usually at Second Division level. In addition special sub-committees or working parties may be established by IDAC to undertake particular tasks, for example there are three standing sub-committees on Internal Audit Education, Internal Audit Standards and Internal Audit Practice.

3.7   The administrative support required by the Interdepartmental Committees and the Board is being provided by the Implementation Unit which was established in the Board's Office to support the internal audit and other such Serice-wide programs. Supporting staff from departments are also seconded to this Unit from time to time to provide a specialist input, to bring departmental experience and background to the Unit and to provide training and experience for the seconded officer. Fourteen full-time staff have assisted the Unit for periods of six months or more, in this way, on the internal audit program. In addition, some of these and a large number of other officers provide shorter-term assistance (one or two weeks) or technical advice on a regular part-time basis.

Role and Scope of Internal Audit

3.8   At the commencement of the development program the potential role and scope of internal audit in the Australian Public Service was described in Public Service Board circular 1979/8 which was reproduced as Appendix B of the Committee's 184th Report. During 1982 IDAC examined the validity of that earlier statement in the light of experience gained and research undertaken since 1979. The results of that examination are

reflected in IDAC Paper 53 'The Role and Scope of Internal Audit' which was circulated to departments, authorities and the JCPA in October 1982. (See Attachment A)

3.9   The paper discusses the role of internal audit in providing a protective and constructive service to management, the range of purposes for which internal audits are undertaken and the scope or range of subject matters now generally covered by internal audit activities in departments and authorities. As such it now replaces the 1979 circular.

Education and Training

3.10   The educational and training activities for the Service's internal auditors are now under the general oversight of the Education Committee of IDAC. The Committee has been assisted by Dr B.J. Garner, Professor of Computing at Deakin Univeristy who was engaged as principal consultant on ADP auditing. The activities include special interest groups, in-Service training courses and presentations by Australian and overseas experts and attendance at courses, seminars and conventions presented by professional bodies, tertiary institutions and private sector organisations.

3.11   Special interest groups for ADP auditors and research and development auditors were established in Canberra during 1982. Both groups hold regular meetings and discuss a wide variety of topics. At an early stage of the program encouragement was given to the creation of Government Internal Audit Groups. These groups, which have been established in most States, meet regularly with the aim of raising the standard of internal audit by considering issues relating to internal audit techniques and methodology. They also provide a focus for co-operative efforts to provide internal audit training. Auditors from the State public services are involved with several of the Groups.

3.12   Formal in-Service training courses are presented regularly at two levels of expertise. At the basic level there are two courses:

- Internal Audit Practitioners Course
- ADP Controls and Auditing

At the advanced level there are courses on:

- the basic concepts of:
  - ADP
  - Data communications
  - Data base
  - Data dictionary

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- ADP Security
- Audit and Control of the Data Base Environment
- Audit and Control of the Data Communications Environment
- Use of Generalised Audit Software Packages
- Auditing the Systems Development Process
- The Test Data Approach to Auditing
- Audit Problems of Small Computers
- Management Improvement Techniques

3.13   The Internal Audit Practitioners Course was developed by a team of auditors seconded to the Board's Office in 1979. Key elements of this one week course are Role of the Internal Auditor, Nature and Types of Audit, Planning, Working Papers for Auditing, Statistical Sampling for Internal Audit, Control Modelling, and Reporting. It is aimed at providing some of the skills and developing attitudes required for systems based auditing. To date there have been over 1200 participants in the course which has been presented widely in both Canberra and the States. The course is regularly revised in the light of experience and is 'packaged' for use by departments and other bodies such as the Government Internal Audit Groups.

3.14   The Board also worked with the Institute of Internal Auditors in developing material for a one-day course on 'presenting audit findings to senior management at the exit interview' elements of which have been incorporated in the practitioners' course.

3.15   The basic ADP auditing course is based on the Canadian Institute of Chartered Accountants (CICA) Course. The course originally comprised three segments: Computer Controls Course (CICA I) - four days, Computer Auditing Course (CICA II) - six days; and a four week supervised ADP audit project. Recently, with the wider availability of trained staff to supervise basic level ADP audit projects within the participant's own organisation, the practice of requiring participant involvement in a supervised project linked to the training course has been discontinued. The objectives of this course are to provide students with a working knowledge of computer controls and an understanding of the principles and basic methodology of auditing ADP systems and services. The courses have been provided in both Canberra and the States with 520 participants to date.

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INTERNAL AUDIT DEVELOPMENT PROGRAM - TRAINING DELIVERED

Availability/Subject Matter	Duration of Course (Days)	Attendees 1.6.79 to 31.12.81	Attendees 1.1.82 to 30.11.82	Attendees 1.12.82 to 30.6.83	Total	Total Training Days Provided
*** Internal Audit Managers' Course	7.0	233			233	86.0
*** Internal Audit Practitioners' Course	5.0	921	62	95	981	215.0
*** System Based Audit Modules	0.5	59			59	1.0
*** Senior Officers' Briefings	2.0	408			408	6.5
Packaged Course Presentation Workshop	2.0			5	5	2.0
*** Basic ADP Audit (CICA 1 & CICA 2)	10.0	427	20	5	521	240.0
*** Advanced ADP Audit	20.0	295		64	295	120.0
* Computer Security Audit and Control (Kuong)	3.0	51	27		51	12.5
* Advanced On-Line Systems Audit and Control	2.5	143			143	7.5
* Audit and ADP Systems	1.0	43			70	1.0
* Systems Development Audits and Building		70			70	
* Auditability into Systems						
* How to Design and Build Internal Controls	2.5		27		77	2.5
*** ADP Concepts	5.0		21	18	21	5.0
*** Data Communication Concepts	2.5		30	18	44	10.0
*** Data Base Concepts	1.0		49	12	49	1.5
* Data Dictionary Concepts	1.0		71	21	71	1.5
* Audit & Control of Data Base Env. Course (Angeloro)	3.0		21	24	17	6.0
* Audit & Control of Data Base Env. W'shop	1.0				17	2.0
* Audit & Control of Data Comm. Env. Course	3.0		29		29	6.0
* Audit & Control of Data Comm. Env. W'shop	1.0			15	15	2.0
*** ADP Security	2.5		51	18	69	10.0
*** Generalised Audit Software Packages	various		18	20	41	10.5
* Auditing Implications of the Micro Revolution (CSA)	0.5			18	18	0.5
* Auditing the Systems Development Process	7.5			12	12	7.5
*** Audit Problems of Small Computers	3.0			21	21	6.0
* ADP Audit Workshop for Audit Managers	1.0			24	24	1.0
* Designing Controls Into Computerised Systems (Dr. Jerry Fitzgerald Seminar)	2.0			70	70	2.0
TOTAL		2552	786	388	1126	980.0

Courses Under Development :

Test Data Approach   (Presented July 1983)

Key:
*** IDAC packaged course
** Prepared by IDAC - not now available
* Course prepared and presented by external consultant

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3.16   The supervised ADP audit projects not only served a training purpose, they also provided the participating organisation with a live ADP audit project at a time when few such audits were conducted. Fifty seven such projects were undertaken representing some 20 man years of basic ADP auditing effort.

3.17   In developing the advanced ADP audit training program it was necessary to meet the formal training needs of two streams of staff with different backgrounds. On the one hand a number of staff taking up the new ADP audit positions in departments had extensive ADP training and experience but little experience in auditing. On the other hand the balance of the positions have been taken up by staff with an audit or review background with little experience in ADP. (The specific development needs of both groups are considered in detail in IDAC Paper 31 'The Development of Departmental Arrangements for ADP Auditing' which was circulated to departments and the JCPA in June 1981 - see Attachment B).

3.18   Thus the 'Concepts' courses were included in the advanced ADP audit program to provide bridging information on technical aspects of ADP to staff with a non-ADP background as a pre-requisite to participation in the advanced ADP audit courses.

3.19   The design criteria for each course within the advanced ADP audit program placed emphasis on the specialised management support role of government internal auditors, an emphasis not then present in commercially available courses. With the exception of the two courses on data base and data communications auditing, which were developed for the Board by David Angeloro and Associates, the remaining courses were developed by staff attached to the Board's Implementation Unit. The accounting firm of Touche Ross and Co provided valuable assistance in the development of the course on the use of generalised audit software packages.

3.20   Details of the number of staff attending all courses are shown in Table 1.

Other Activities

3.21   As part of the advanced ADP audit program the Board has sponsored three consultant-led advanced ADP audits. These audits had three objectives: to develop advanced ADP audit methodologies for wider use within the Service; to provide further opportunities for departmental staff to gain expertise and experience particularly by working with private consultants; and to undertake an actual audit for an organisation. The consulting firms involved were Coopers and Lybrand Services, Price Waterhouse and Co and Touche Ross and Co.

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3.22   An important element of the internal audit program has been the preparation of a number of papers relevant to the development of sound practices in internal auditing - many of which were reproduced by the JCPA on its 184th Report or are included as attachments to this Minute. A list of the key documents which have been circulated to departments by IDAC or the PSB is at Attachment C.

Surveys

3.23   The interdepartmental committee has conducted three annual surveys on internal audit arrangements in departments and authorities staffed under the Public Service Act. The results of the most recent survey, covering 1982, are contained in IDAC Paper No 61 at Attachment D.[1] (The results of the 1980 and 1981 surveys were incorporated in IDAC Papers 35 and 47 which were circulated at the time to the JCPA and to all departments).

3.24   Looking to the future, IDAC has identified as an issue for its examination, co-ordination arrangements which will need to be in place to maintain the Service-wide standards and capability for the internal audit function, when the Board's central role in the development program is completed. The establishment of an Education Committee within IDAC to continue to develop and oversight an overall education strategy and the delivery of training programs is a first step in that direction.

RECOMMENDATIONS

RECOMMENDATION 1

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

Response

3.25   An IDAC discussion paper on Audit Committees (IDAC 15 - see Attachment E) was circulated to Permanent Heads in March 1980. Responses to the 1982 IDAC questionnaire, indicate that 20 organisations have established audit committees (an increase of 7 since the 184th Report) - (see Table 16 of Attachment D). The committees comprise Second Division officers chaired by Permanent Heads, Deputy Secretaries, or First Assistant Secretaries.

3.26   An audit committee per se may not be necessary in all organisations. For example, in smaller organisations the formal or informal links between the auditor and the Permanent Head and senior executives are usually quite direct and the establishment of a formal audit committee structure may not be appropriate.

1.   Tables 1, 2 and 3 of the Minute, which reflect data current as at 30 June 1983, should be read in lieu of Tables 1, 3, 5 and 7 of IDAC Paper 61.

RECOMMENDATION 2

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

Response

3.27   The Board was pleased to note the emphasis which the Parliamentary Committee placed on this issue. PSB Circular 1980/7 of 1.4.80 put forward an action program to improve the Service's capability for the internal audit of ADP systems and services. That circular was supplemented by IDAC Paper 31 'The Development of Departmental Arrangements for ADP Auditing' which was circulated in June 1981 (see Attachment B). The IDAC Paper was designed to assist departments in organising and developing their ADP auditing activities. It reviewed the main ADP audit tasks and the associated skills which may be required and then canvassed various ways in which these skilled audit resources might be organised. The Paper was particularly concerned with the problems of those organisations which rely extensively on complex copmputer systems and require the services of ADP audit specialists.

3.28   An outline of the development program to raise the competence of staff in ADP auditing was provided at paragraph 8-18, and further details are given at Tables 6 and 11 of Attachment D 'Survey of Internal Audit in the Australian Public Service' and Table 1 of this Minute. That survey also indicates that in 1982 all but 8 organisations were actively involved in ADP auditing - although the extent of such auditing varied considerably - and that in a number of departments emphasised audit attention is being focussed on systems under development.

3.29   IDAC has also encouraged departments to form audit teams, which may include private consultants - to tackle ADP audit projects. A small number of departments have used, or plan to use private consultants. In addition, as mentioned in paragraph 14 some 57 supervised ADP audits were conducted as part of the basic ADP audit training program.

3.30   Although considerable progress has been made in respect of ADP auditing many departments have indicated a belief that, because of the complexity of the task and the need for the reinforcement of formal training by extensive on-the-job experience, they will not achieve an adequate ADP audit capability until the end of 1983 or 1984 and in some cases 1985. The Board believes this to be a realistic assessment and is continuing to give high priority to the provision of training in this area.

RECOMMENDATION 3

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

Response

3.31   The Board agrees that general standards or practice statements are desirable for internal ADP auditing in the Service. Following extensive discussions with the main organisations concerned the Board has issued, in Volume 4 of its Personnel Management Manual, seven sets of guidelines for departments on computer-based systems.[1] These guidelines on general ADP practices provide a starting point for the planning of ADP audits. This process is supplemented by use of IDAC Paper 54 'Index to ADP Audit Reference Material' prepared by the IDAC Audit Practice Committee to identify an extensive range of Australian and overseas material on audit practices and procedures. The continuing exploration of ADP audit methodologies through consultant led projects, training courses and extensive practical testing within departments, is also an important element in the identification of efficient and effective APS standards for ADP audit. However, the diversity and complexity of ADP systems in the Service and the wide range of internal audit work related to these systems, indicate that ADP audit standards will provide no more than a general framework within which APS internal auditors operate and that at this time emphasis needs to be placed on effective audit planning and the application of a quality assurance program by audit management. The Board has noted that the Auditing Standards Board of the Australian Accounting Research Foundation recently issued as exposure drafts the first three Australian Statements in a series of guidelines on auditing in an ADP environment.

RECOMMENDATION 4

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.

Response

3.32   The Board agrees that all departments and authorities presently developing ADP systems should seek expert audit advice as to the auditability of such systems before they are implemented. At the same time it would appear to be a matter for each organisation concerned to determine the source or sources from which it should seek such advice.

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1.   These Guidelines cover: Internal Controls; Risk Management; Computer Security; Cost Effectiveness; Production of Strategic Plans; Management of Strategic Plans; and Documentation of ADP Proposals. An exposure draft of an eighth set of PSB Guidelines - 'Personal Computer Systems' was under consideration by various organisations at the time of preparation of this Minute.

3.33   In some cases organisations will have developed their ADP audit capability to the point where their own auditors are in a position to provide the requisite advice.

3.34   In other cases organisations would need to seek the help of 'external' auditors in either the private or the public sector. As mentioned later under Recommendation 11 a paper has been circulated to all departments which gives guidance on the use of private sector resources for internal audit purposes including ADP auditing.

3.35   Within the public sector, organisations may seek the services of audit experts in other departments or they may approach the Auditor-General's Office. The views of the Auditor-General on this recommendation are as follows:

. In paragraph 5.13 of the (JCPA) Report, the words "building in effective management controls" are used, as presumably the Committee intends, by using the word "auditability", in recommendation 14 to ensure that the system when implemented has effective management controls, that is, that the relevant internal system of controls including those in the associated manual areas are all established and followed. If these aspects are what the Committee has in mind then I support the principle underlying the recommendation, that is that this Office should have the opportunity to make an assessment of any system currently being designed before it is implemented.

. This Office has found that there are practical difficulties in reviewing the system of internal control proposed for new systems. The ideal approach is to review the proposed controls at the stage in the system's life cycle at which the specifications are firm. There is little value from an external audit viewpoint in carrying out such a review at an earlier time as specifications are too fluid and a variety of factors can affect the types of control eventually used. In that context an internal auditor is in a better position for ongoing involvement in the system design process. It is often difficult to select the precise time at which the system design is firm and the system of internal control is often inadequately specified. This Office will, therefore, have to be given notice of the requirement for an assessment, and prior to the Office undertaking an assessment it will be necessary for departments to have defined the control objectives for the system and separately specified how those objectives will be met including those clerical procedures essential to the system of control.

· Leaving aside the logistical aspects of arranging such assessments there are, at least for the near future, some practical difficulties in the way of achieving such involvement by my Office. The 1981 questionnaire sent out by the Board on internal auditing within departments showed that the most critical shortage within departments is ADP expertise. A concerted effort was made during 1982 to alleviate this problem. A similar questionnaire sent out in late 1982 by the Board revealed, however, that the problem continued and that departments had become somewhat more conservative regarding the attainment of an adequate level of ADP expertise than they had been at the time of the 1981 questionnaire. Many departments do not now expect to achieve their target completely before 1984-85 although concerted efforts to educate and provide experience for suitable staff continue. The Audit Office, during the last few years, has found it very difficult to build up the numbers of competent ADP auditors, and with the growth in number of ADP audit positions within departments the competition for ADP auditors will become more intense in the next year or so. It may be that the Office will not be able to provide resources to undertake assessments in every case. Where that is the case, and it appears that the need for effective management controls had not been properly addressed in the developmental process, we would have to suggest that assistance be sought from some other source. Nevertheless I believe that this Office should take the opportunity where possible to assess the management controls for new systems before the systems are implemented. The need for this involvement by the Office will of course reduce as internal audit skills and involvement in the ADP system development process increases.

RECOMMENDATION 5

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

Response

3.36   The Systems Auditability and Control (SAC) reports are a valuable reference document for departments. References to a number of other useful texts are included in IDAC Paper 54 'Index to ADP Audit Reference Material.

RECOMMENDATION 6

Permanent Heads of departments and heads of Statutory Authorities should decide upon and pursue with the PSB, the appropriate classification level for the position of Chief Internal Auditor, preferably within the Second Division.

Response

3.37   In its circular introducing the internal audit development program in 1979 the Board encouraged departments and authorities to re-examine their internal audit organisational arrangements and, where necessary, to seek appropriate classification changes. Since that time the classification of the Chief Internal Auditor position has been raised in 24 organisations and most departments have received agreement to at least one reorganisation proposal covering staff at all other levels.

3.38   The April 1979 and June 1983 establishments of all internal audit units are compared in Table 2. Establishment and staff levels as at 30 June 1983 are shown in Table 3. The overall trends, particularly the upward movement of classifications, are shown in Charts 1 and 2 which plot the total Service-wide figures from Tables 2 and 3.

3.39   Six of the largest departments now have chief internal auditor positions in the Second Division (Defence, Health, Industry and Commerce, Social Security, Taxation and Veteran's Affairs). This is an increase of five since the 184th Report. Most of the other chief internal auditors positions - which were previously around the Class 8 and 9 levels - have now been upgraded to the two highest classifications in the Third Division. Accordingly, in most departments and authorities the chief internal auditor position now is appropriately classified.
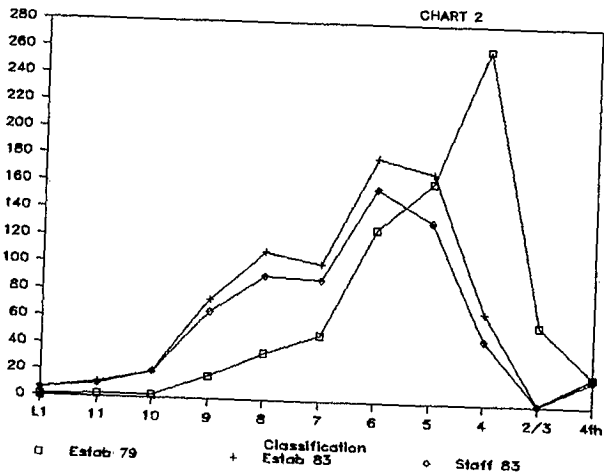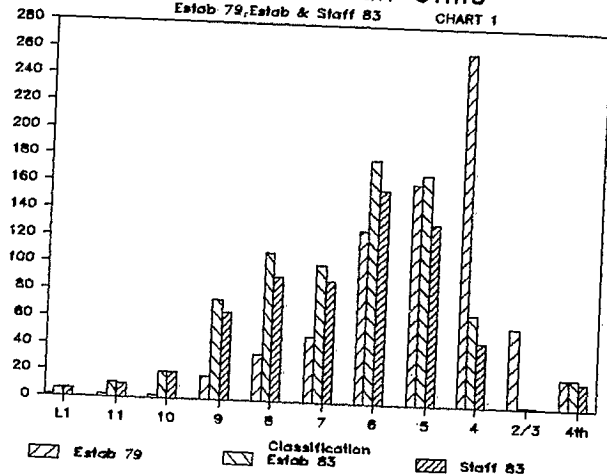
RECOMMENDATION 7

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

TABLE 2

INTERNAL AUDIT UNITS
TOTAL ESTABLISHMENT APRIL 1979 & JUNE 1983 - BY SALARY CLASSIFICATION

Classification / Departments/Authority	Level 1 79	83	Class 11 79	83	Class 10 79	83	Class 9 79	83	Class 8 79	83	Class 7 79	83	Class 6 79	83	Class 5 79	83	Class 4 79	83	Cl. 2/3 79	83	4th Div 79	83	Total 79	83
Defence			1	1	1	1			2	3	13	12	6	19	29	32	39	44	80	25	8		6	7	184	156
Social Security	1	1							2	1	6	1	12	5	12	17	33	24	23	30	9	9	4	3	92	103
Taxation Office			1	1	1	1	1		1	2	4	1	9	5	13	14	13	12	19	32	6	11	8	6	87	73
Veterans' Affairs		1							1	2	6	1	8	5	13	10	16	12	17	32	5	5	1	1	68	66
Housing and Construction					1				1	5	2	6	3	3	0	7	7	5	12	6	4		1	35	34
Industry and Commerce		1				1			2	1	5	2	11	2		4	8	9	3	4			1	22	32
Administrative Services					1						1	6		8	3	2	5	9	8	8		2	1	27	31
Employment and Industrial Relations					1							3	4	1	4	5	8	6	7	7			1	19	26
Group Sub-total	1	5	2	0	1	8	11	46	19	70	30	66	90	128	117	123	295	51	39	0	19	20	534	523
Aviation			1	1			1	3	1	4	1	4	6	4	3	9	11		3				26	25
Health		1					2	3	1	5	1	5	5	7	4	4		3				16	20
Defence Support				1	1	3	3	3	3	2	5	5	3	3	3	3					17	26
Foreign Affairs			1	1	3	3	2	5	2	2	5	4	1	3			1	1	16	20
Education and Youth Affairs				1	1	6	1	3	3	5	4	1	3			14	17
Attorney-General's				1	1	2	3	2	7	7	5	2		18	17
Territories and Local Government			1	1	2	2	1	3	1	3	3	2	7	7		18	17
Primary Industry		1	1	2	4	4	1	5	6	4	2	1		20	15
Aboriginal Affairs		1	1	2	2	5	5	4	3	5	1	1	1	15	14
Finance		1	1	1	2	2	1	2	3	1	5	2		1	18	14
Trade		1	3	2	1	1	2	1		7	11
						3	2	1	1	2	1	1		2	11
Group Sub-total	0	1	0	5	1	7	6	20	9	29	16	29	31	38	39	38	48	14	16	1	3	2	169	184
Science and Technology			1	2	1	3	4	1	3	1		7	10
Immigration and Ethnic Affairs		1	2	2	1	2	3	1	2	2		7	9
Resources and Energy		1	2	1	1	2	3	1		5	7
Capital Territory Health Commission		1	1	2	1	1	1	1		5	6
Home Affairs and Environment		1	1	2	2	1	1		3	6
Australian Bureau of Statistics		1	1	1	1	2	2	1	1		5	5
Group Sub-total	0	0	0	0	0	5	0	5	8	3	5	6	12	7	5	9	3	4	0	0	0	32	43
National Library				1	1	1		1	1		2	3
Public Service Board			1	1				1	3
Communications		1	1	1		9	3
Prime Minister and Cabinet		1	1		1	3
ACT Schools Authority			1		1	2
Industries Assistance Commission		1	1		0	1
Trade Practices Commission		1		1	1
Transport (from 1983)		1		0	1
		1		0	1
Group Sub-total	0	0	0	0	0	0	0	3	4	3	0	2	1	3	0	4	0	0	0	0	0	5	15
TOTAL ESTABLISHMENT - 1979	1		2		2		17		35		49		128		163		262		59		22		740	
- 1983		6		11		20		74		110		102		181		170		68		1		22		765

TABLE 3

INTERNAL AUDIT UNITS
TOTAL STAFF AND ESTABLISHMENT JUNE 1983 - BY SALARY CLASSIFICATION

Classification / Department Authority	Level 1 St.	Est	Class 11 St.	Est	Class 10 St.	Est	Class 9 St.	Est	Class 8 St.	Est	Class 7 St.	Est	Class 6 St.	Est	Class 5 St.	Est	Class 4 St.	Est	Cl. 2/3 St.	Est	4th Div St.	Est	Total St.	Est	Occ'y %
Defence	1	1	1	1	2	2	12	13	11	12	18	19	31	32	36	44	15	25			6	7	131	156	84
Social Security	1	1			2	2	5	6	11	12	11	12	11	12	25	19	23	9	9			5	5	94	103	91
Taxation Office	1	1	1	1	1	1	3	4	8	9	16	13	12	13	12	19	0	0			6	6	60	73	82
Veterans' Affairs	1	1			1	1	6	6	7	8	11	13	13	16	17	17	4	5			1	1	61	68	90
Housing and Construction			1	1			5	5	6	6	3	3	0	7	5	5	6			1	1	23	34	82
Industry and Commerce	1	1	1	1	2	2	5	5	9	11			8	8	3	3				1	1	30	32	94
Administrative Services			1	1			5	6	3	2	3	8	9	5	5						28	31	90
Employment & Industrial Relations		1	1			1	1	2	2	4	4	6	6	6	7			1	1	23	26	81
Group Sub-total	5	5	6	6	8	8	42	46	62	70	59	66	117	126	101	123	34	51	0	0	19	20	452	523	87
Aviation	1	1			3	3	2	4	4	4	4	4	6	9						22	25	88
Health	1	1	1	1	2	3	4	5	5	5	3	4	4						20	20	100
Defence Support		1	1	3	3	5	7	2	2	5	5	3	3	3				20	20	100
Foreign Affairs		1	1	3	3	4	5	5	5	5			0	1	16	20	80
Education and Youth Affairs			1	1	5	6	3	2	5					8	17	47
Attorney-General's		1	1	1	1	3	3	3	3	1	2	1	1	15	17	88
Territories and Local Government		1	1	2	2	2	2	3	3	3	2	2	2	2			15	15	100
Primary Industry		1	1	3	4	4	5	1	1		1	1	14	14	79
Aboriginal Affairs		1	1	1	2	1	4	6	0	5	0	1		7	14	50
Finance		1	1	1	1	3	5	1	4	1	1		11	11	100
Trade		0	1	1	3	0	2	1	0	2	1	1	0	1	3	11	27
Group Sub-total	1	1	4	5	7	7	17	21	22	28	25	29	38	30	38	11	14	1	1	2	148	184	80
Science and Technology			1	1	0	2	0	1		4	4	0	1	1	1		6	10	60
Immigration and Ethnic Affairs		1	1	2	2	2	2		2	2		2	2		9	9	100
Resources and Energy		1	1		2	2	1	1	1	0	2		5	7	71
Capital Territory Health Comm.		1	1		0	2	1	1	0	1		3	6	50
Home Affairs and Environment		1	1		1	1	1	1	0	2		3	5	60
Australian Bureau of Statistics			1	1	1	1	2	2	1	1		5	5	100
Group Sub-total	0	0	0	0	5	5	3	5	5	8	4	4	10	12	1	5	3	3	0	0	0	0	31	42	74
National Library				1	1	1	1		0	1			2	3	67
Public Service Board			1	1		1	1	0	1		2	3	67
Communications			3	1		1	1	0	1		2	3	67
Prime Minister and Cabinet		1	1		1	1		2	2	100
Industries Assistance Commission			0	1		0	1	0	1
ACT Schools Authority		1	1		1	1	100
Trade Practices Commission			1	1		1	1	100
Transport (from 1983)		1	1		1	1	100
Group Sub-total	0	0	0	0	0	0	3	3	2	3	2	3	2	2	3	4	0	0	0	0	0	0	11	15	73
TOTAL – STAFF	6		10		20		65		91		90		158		134		48		1		20		643		
– ESTABLISHMENT		6		11		20		75		109		102		181		170		68		1		22		764	
Occupancy Rates (%) by Classification	100		91		100		87		83		89		87		79		71		100		91				84
Classification	Level 1		Class 11		Class 10		Class 9		Class 8		Class 7		Class 6		Class 5		Class 4		Class 2/3		4th Div		Total		

Internal Audit Units
Estab 79, Estab & Staff 83
CHART 1

Legend: Estab 79 | Classification Estab 83 | Staff 83

CHART 2

Legend: Estab 79 | Classification Estab 83 | Staff 83

Response

3.40   As indicated in Table 1 the central training program sponsored by the Board and IDAC to meet the needs of all departments is comprehensive and has attracted large numbers of participants. Within that program some of the larger departments present courses in-house for their own staff and staff of other departments. However, it is neither economical nor feasible for all departments and authorities, particularly the smaller ones, to implement their own in-house training.

3.41   There is solid departmental support, through IDAC, for the Board's efforts to encourage tertiary institutions and others to develop appropriate courses.

RECOMMENDATION 8

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.

Response

3.42   Considering the new role of internal audit there can be little argument that a rotation in internal audit would be a sound development experience for many officers. There would be equally satisfying experience to be gained in a number of other review-type areas. Also internal audit staff would benefit from work experience in other areas of the organisation.

3.43   A particularly valuable form of rotation for internal audit staff is evidence by the contribution of departmental staff to the central efforts of the Implementation Unit (see the introductiuon to this Minute).

3.44   A cross-flow of experience among departments and between internal audit and other areas is being achieved through promotions and transfers. In the eleven months to November 1982 there were 219 departures from internal audit units, with 44 of these people moving to other audit units and, of the 2214 staff who joined internal audit units, 81 came from other audit areas including the Auditor-General's Office - see Table 2 of Attachment D for details.

RECOMMENDATION 9

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.

3.45   Because of the wide variation among organisations it is not desirable to be prescriptive about organisational arrangements. A discussion paper 'Management Advisory Services in the Australian Public Service', circulated by the Board in 1979, encouraged departments to consider this issue. Various papers produced for the internal audit development program have also emphasised the need for departments to look closely at the relationship between these functions.

RECOMMENDATION 10

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

Response

3.46   All organisations responding to the 1982 survey have now centralised control of the internal audit function.

RECOMMENDATION 11

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.

Response

3.47   Following the distribution of IDAC Paper No 9 on 'Viability of Small Internal Audit Units' in March 1980 (see Attachment F) there have been notable changes through centralisation, or 'unbrella' arrangements covering outrider organisations.

3.48   In 1981 the Board's consultant on internal audit prepared a report on contracting out of internal audit services taking into account the views of the central bodies concerned — the Department of Finance, the Auditor-General's Office and the Board. A copy is at Attachment G. The report which was sent to all departments and authorities staffed under the Public Service Act contains suggestions and identifies factors which organisations need to take into account in considering the use of the private sector for internal audit projects and services.

3.49   The main conclusions of that report may be summarised as follows:

(i)   It would be quite inconsistent with the concept and purpose of internal auditing to attempt to pass over the function in toto to

the private sector — or indeed to any other organisation in the public sector. Unlike external auditing, internal auditing is an appraisal mechanism established within an organisation and it may be required to review any aspect of departmental operations from the standpoint of reliability, efficiency or effectiveness. It is an integral part of departmental management and departmental personnel need to be closely and actively involved.

(ii)   Nevertheless, in some circumstances, the use of properly controlled and organised resources from outside an organisation's own establishment can help to make its internal auditing operations more efficient and effective.

(iii)   In general, the need for some external help is most likely to arise in respect of the smaller internal audit organisations and in situations where a temporary injection of specialist or other audit skills may be required. Examples of situations where some recourse to 'outside' resources might be helpful are given in the Report.

(iv)   In all such cases appropriate relationships need to be established with the organisation's internal processes and management. (Some detailed guidelines for departments are attached to the Report). In particular the organisation should retain full control over its auditing program and full responsibility for the auditing operations while all projects contracted out should be oversighted by departmental management - usually by the Chief Internal Auditor.

(v)   In some situations the possibility of making some use of external resources may need to be ruled out. For example:

.   Where the auditing would involve access to Government information of a highly sensitive kind.

.   Where private firms would be involved in conflict-of-interest situations.

.   Where first-hand and intimate knowledge of an organisation's activities and policies may be necessary.

(vi) Departments seeking outside help in respect of audit projects should explore all relevant sources in both the public and the private sectors. They should also retain full flexibility in choosing and drawing on those contracting firms or organisations which best meet their needs.

(vii) In the Commonwealth Government sector organisations may enter into joint servicing arrangements with other departments. Organisations may also seek advice on their auditing problems from JIC/IDAC and the Board's Implementation Unit. The Joint Committee of Public Accounts has proposed that an Audit Bureau be established to provide 'internal' auditing services but this proposal involves some difficulties and is unlikely to lead to the early availability of further audit services.

(viii) In the private sector, a number of leading firms of public accountants have displayed interest in carrying out auditing services for departments. Other sources of professional and technical advice in the private sector may also be relevant.

(ix) The contracting out of internal audit projects would need to be subject to the same principles and procedures as apply to the contracting out of other similar services. Departments should pay particular attention to the economy, efficiency and effectiveness of such arrangements. All contractual arrangements (including the work carried out by contractors) may be subject to investigation and evaluation by the Auditor-General.

3.50 In the Board's view the report provides a valid and useful framework within which a given department or authority contemplating contracting out may consider the pros and cons as they apply to its individual circumstances.

RECOMMENDATION 12

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.

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Response

3.51 Following extensive discussion of this recommendation by the members of the JIC and IDAC the main issues involved were canvassed in a paper (see Attachment H) which was prepared by the Chairman of those Committees in October 1981.

3.52 The main points and conclusions of that paper can be summarised as follows:

(i) The case for establishing a centrally organised audit body such as an Audit Bureau depends, in the first instance, on the kind of functions which may be envisaged for it.

(ii) Under the Board's leadership the current arrangements have taken the form of an interdepartmental committee system (on which all the main interested parties are represented) together with an Implementation Unit in the Management Systems and Efficiency Division of the PSB (to which departmental officers are also seconded) to support the internal audit development program. This type of machinery - which has relied heavily on co-operative effort on the part of all concerned - has proved to be well suited to the training and other promotional functions which it carries out.

(iii) There would therefore be little or no case for establishing a formal audit bureau if it were to do no more than carry out these existing functions. Indeed, as the present remedial program progresses and the training activities taper off, it should be possible to dispense with at least some of the present machinery and look forward to the time when the Board will no longer need to play a leading role in this matter and devote resources to encouraging this particular departmental function.

(iv) The Public Accounts Committee's case for establishing an Audit Bureau is based on the view that, in addition to carrying out remedial programs to help departments carry out their internal audit function, the central body should also carry out a continuing audit function for them. This view, in turn, is derived from the Committee's diagnosis that some departments and organisations cannot carry out an audit function adequately from their own staff resources.

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(v)   We can agree with the Committee's *diagnosis*
        that it is wasteful and inefficient for some
        organisations to establish their own
        internal audit units and that some internal
        audit units are not in a position to provide
        highly-specialised audit *services and other*
        audit services in short supply.

(vi)   We can also agree that, if a central
        organisation were to get into the business
        of providing audit *services on a continuing*
        or significant scale, some permanent form of
        machinery - and one devoted solely to audit
        matters - would be required. But in that
        event it should not be assumed that anything
        like the *present arrangements (under which*
        the Board plays a leading role) would be
        appropriate. On the machinery side it would
        be necessary to review such aspects as:

        . the nature of the auditing services to
           be provided and whether they should be
           provided by the one body;

        . the nature of the 'parent' authority or
           authorities. (For example, it would
           scarcely be appropriate for a central
           authority such as the Public Service
           Board to be involved in providing a wide
           range of audit services);

        . the degree of control to be exercised by
           the client departments.

(vii)   The difficulties involved in operating
        hybrid organisations of this kind which cut
        across normal departmental lines of
        responsibility are well known. Moreover,
        attempts by other administrations to set up
        such bureaux have not been conspicuously
        successful although an interesting
        innovation is taking place in Queensland
        where a small bureau with a specialised
        function has been established recently.
        Nevertheless, the difficulties in operating
        a *Bureau would be considerable* and it is
        obvious that this form of audit machinery
        will not succeed unless there is strong and
        widespread support for it on the part of its
        potential clients and the relevant central
        authorities. At least at this point of time
        there is no evidence of such support and the
        Auditor-General's Office is actively opposed
        to the proposal.

(ix)   The Parliamentary Committee appears to
        assume that the only solution to the problem
        of non-viable internal audit units is to
        establish a new audit organisation and a new
        audit service. Any proposal of this nature
        needs to be considered in the context of the
        total audit arrangements for the Service and
        other options should also be considered
        including the possibility of making better
        use of the auditing services which may be
        available from existing sources such as:

        . other departments
        . the private sector
        . the Auditor-General

        (These other options are referred to in the
        paper and canvassed in more detail in the
        IDAC Paper entitled 'The Viability of Small
        Internal Audit Units'.)

3.53   The paper concludes by suggesting that:

(a)   First priority should be given to the
        development of efficient internal audit
        arrangements and to the better use of other
        existing audit facilities rather than to
        pursuing at this stage, the possibility of
        establishing a new auditing service and new
        audit machinery.

(b)   Adoption of this approach may mean that some
        of the problems arising from the
        non-viability of internal audit units will
        not be capable of easy solutions and some
        will fall into the lap of the
        Auditor-General. It remains to be seen,
        however, whether such difficulties as may
        remain in respect of departments' audit
        problems will prove to be sufficiently
        widespread or serious as to warrant serious
        thought being given to the possibility of
        establishing some new form or forms of
        centrally organised audit machinery.

(c)   Under the existing arrangements we should
        continue to do all we can to help
        departments to mobilise the necessary
        resources and find solutions to their
        auditing problems. Action along these lines
        should also help focus attention on ways in
        which the organisation of auditing in the
        Service might best be improved.

3.54   The Board did review its earlier decision on this matter and concluded that it would not be possible to justify the creation within the Service at this time of a further central audit organisation of the kind proposed by the JCPA. The Board endorses the view expressed in the above paper that in current circumstances first priority should be given to making better use of existing audit facilities.

IDAC Paper NO. 53

THE ROLE AND SCOPE OF INTERNAL AUDIT

Interdepartmental Advisory Committee on Internal Audit

October 1982

PREFACE AND EXECUTIVE SUMMARY

This IDAC paper describes the role which internal auditing may play in the Australian Public Service. It identifies the essential features of the internal audit function, describes the range of purposes and subject-matters of internal audits, and draws attention to some of the current problems and challenges arising from the growing diversity of internal audit operations.

The main purpose of the paper is to promote greater understanding of the ways in which internal audit can provide a useful and effective service to management. As such, the paper should be of interest to all those concerned with the development and administration of the internal audit function in the Service. The paper does not attempt to prescribe the action which organisations should take in relation to internal auditing. It is a matter for each department or organisation to determine audit programs geared to their particular needs. It is hoped, however, that the paper will assist Audit Committees and the senior management in each organisation in planning their internal audit goals and programs, in making best use of their internal audit resources and in the early marshalling or development of personal skills in their audit work force.

....

· The paper begins by referring to the substantial changes that have been taking place in the nature and scope of internal auditing in the Service. Because of wide differences in organisations' internal audit needs the scope of internal auditing varies as between organisations but recent developments confirm that overall, its scope is expanding and calling for a greater diversity of skills. The main features of internal auditing are outlined in paras. 5 - 8.

· The overall aim of internal auditing is to provide organisations with a protective and constructive service. Within that general aim audits may serve a wide variety of purposes and these are described in Chapter II (paras. 9 - 40).

· Audits with an essentially 'protective' purpose include those designed to assess the adequacy and integrity of information (paras. 1 - 14) and those concerned primarily with compliance and regularity (paras. 15 - 20). These latter audits are designed to establish whether an organisation's activities comply with the relevant laws, policies or directives laid down by Parliament, the central authorities or the organisation itself.

· Internal audits may be employed to assess the economy, efficiency or effectiveness with which an organisation is using its resources and achieving its programs and policy objectives (paras. 21 - 30). Organisations may also call on their internal auditors to assess their activities from other specified standpoints (paras. 38 - 40).

· Some internal audit activity takes the form of studies and surveys with more limited objectives than full systems-based audits or in-depth audit projects. Such audit activity may be designed primarily to diagnose problem areas and thus prepare the way for subsequent audits or for other forms of internal or external review which may prove to be necessary (paras. 31 - 37).

· Possible subject-matters of internal audits are discussed in Chapter III (paras. 41 - 64). There are few limitations on the subjects which can be remitted for internal audit examination; the main requirement is that the subject should lend itself to objective appraisal. In principle, virtually any aspect of an organisation's operations and administration may therefore be audited and the data or systems to be audited may take a variety of forms.

· The various matters which may be audited are discussed under four main heads, namely:

    1. Financial adminstration   (paras. 46 - 48)
    2. Administration and management (paras. 49 - 55)
    3. Operations and services   (paras. 56 - 58)
    4. ADP systems and services   (paras. 59 - 63)

· The possible aims and subject-matters of internal audits are brought together in the matrix in Chapter IV (Page 13). This matrix provides a framework which might assist organisations in planning their audit programs and in selecting those particular internal audit activities which best meet their needs (paras. 65 - 67).

· Problems and challenges arising from the great potential range and diversity of internal auditing are discussed in Chapter V (paras. 68 - 78).

· One major problem is the variety of special skills which may be required. Organisations wishing to carry out auditing in a number of different fields and for a variety of purposes will almost certainly require a balanced mixture of audit staff who are not only trained in the fundamentals of auditing and have a broad understanding of their organisation's activities but who also possess expertise in selected functional areas. The services of outside experts may also be required from time to time (paras. 68 - 72).

· In any event, no organisation should aspire to carry out, at any one time, the whole range of internal audit activity illustrated in the matrix. Every organisation should adopt a selective approach in deciding what kind of internal auditing is to be carried out and in what fields (paras. 74 - 75).

· In making such decisions organisations should also take into account, as far as practicable, the operations of other internal or external review mechanisms which may be relevant to their problems. This will help to avoid unnecessary duplication of review efforts and assist organisations to identify those projects which merit internal audit scrutiny (paras. 76 - 78).

F.C. Pryor
Chairman
Interdepartmental Advisory Committee
  on Internal Audit
October 1982

CONTENTS

THE ROLE AND SCOPE OF INTERNAL AUDIT

I   FEATURES OF THE INTERNAL AUDIT FUNCTION

The surveys of internal audit conducted in 1981 and 1982 by the Interdepartmental Advisory Committee indicate that in the Australian Public Service substantial changes are taking place in the nature and scope of internal audit activities. These changes mainly involve:

.   enlargement of the auditable area to include non-financial matters; and

.   a wider range of purposes for which internal audits are undertaken.

2.   These developments in internal auditing are not peculiar to the Australian Public Service. Similar trends are apparent in other countries such as the United States and Canada. In both of those countries previous definitions and descriptions of internal auditing have been revised in an attempt to bring them more closely into line with current practice. The material in Attachment A illustrates some of the changes which have been taking place both in Australia and overseas in perceptions as to the role or roles which internal audit can play. It will be noted that nowadays a much wider view is being taken not only of the range of activities which may usefully be audited but also of the purposes for which internal audits may be undertaken.

3.   At the same time it is clear that the precise role and scope of internal audit varies considerably between countries and between individual organisations. This is not surprising. Apart from institutional factors, there can be wide differences in auditing needs. Internal auditing is often used primarily for protective purposes - for example, to assess whether an organisation's activities comply with the relevant rules and regulations - but it can also be used for a range of other purposes associated principally with the economy, efficiency and effectiveness with which an organisation is using its resources. Similarly, the systems being audited may involve a variety of subjects - including, for example, financial matters, ADP systems, administrative and management systems, and a wide spectrum of departmental operations and public services.

4.   Recent developments confirm that internal auditing in the Service is becoming more complex and requiring a more diverse collection of skills. It is important therefore that organisations should give careful thought to the kind of internal auditing which will best meet their needs and to the circumstances in which they should rely on internal audit rather than other review mechanisms.

5.   When making decisions on these matters the main features of internal auditing should be borne in mind. First, and most obviously, it is an internal as distinct from an external review mechanism. Its prime function is to provide a protective and constructive service by making systematic appraisals of an organisation's operational and management systems or of particular aspects of those systems. Essentially it is an instrument which can be used by the higher management of an organisation as an aid to efficient management. It can be used flexibly and the organisation itself is in a position to determine the timing and nature

of individual audits and of the internal audit program as a whole. As with any other departmental function, the Permanent Head is ultimately responsible for the way in which the function is carried out and the resources devoted to it.

6.   A cardinal feature of internal auditing is that it is carried out or controlled by personnel who have first-hand knowledge of an organisation's activities but who are independant of and have no continuing responsibility for the activities they review.[1] Internal auditing is concerned primarily with the diagnosis and appraisal of problems and responsibility for following up audit appraisals and recommendations rests with other areas of an organisation. Internal audit is designed to complement rather than duplicate the activities of other internal review mechanisms and support services. Internal auditors are not usually expected to have an expert knowledge of all aspects of their parent organisation but they should have some appreciation of the nature of the organisation's policies and operations and thus be in a position to provide information and evaluations which are both independent and reasonably well-informed.

7.   One traditional feature of both internal and external auditing is that audit reports should be authoritative and objective - and should be accepted as such by the recipients. For this reason material is not normally regarded as 'auditable' unless the criteria and mechanisms to be employed in arriving at audit findings are beyond dispute or are specified clearly in advance of the audit. As a general rule, organisations do not turn to internal audit as a source of policy advice or expect their internal auditors to venture opinions on policy issues.

8.   Unlike the situation in some other countries there are no formal requirements or limitations in the Australian Public Service concerning the circumstances in which internal audit should be undertaken, the purposes for which internal audits may be employed, or on the range of matters which may be audited. Organisations may need to take into account a wide range of factors and possibilities when deciding upon the nature and extent of their audit activities. Possible aims and subject-matters of internal audits are discussed in Sections II and III and that analysis of aims and subjects is brought together in the Matrix set out in Section IV. Some implications for audit management are discussed in Section V.

II   THE PURPOSES OF INTERNAL AUDITS

9.   It is generally agreed that the primary purpose of internal auditing is to provide organisations with a protective and constructive service. Many audits may have a predominantly protective purpose - for example, audits to establish the integrity of certain data or audits to establish whether an organisation's activities comply with the relevant laws and directives. Other audits may be regarded as having a more constructive purpose - for example, audits designed to appraise the way in which resources are being used. In many cases, audits will be concerned with both aspects.

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1.   The independence of internal auditors is discussed in more detail in IDAC Paper No.17 "Independence and Internal Audit in the Australian Public Service."

10.   It is difficult, if not impossible, to list all the purposes for which individual audits may be employed or to devise a classification which would be logically perfect or meet all needs. In this paper the purposes most commonly cited by internal auditors are classified and discussed under the following seven heads; these seven categories are not mutually exclusive and some auditing may have a multiplicity of purposes:

    (1)   Integrity of Information

    (2)   Compliance with Rules, Policies and Directives

    (3)   Economy in Use of Resources

    (4)   Efficiency in Use of Resources

    (5)   Effectiveness of Programs and Operations

    (6)   Diagnosis of Problems

    (7)   Other Specified Aims

(1) Integrity of Information

11.   The purpose of some audits is to assess the adequacy and/or integrity of certain information. In the past most of this kind of auditing was concerned with financial data and was known as financial attest auditing. In more recent years, however, it has become necessary for attest auditing to cover both financial and non-financial matters. Indeed, with the advent of computers, the need for auditing the integrity of computer operations and of computerised material has become a matter of major concern in many organisations.

12.   In carrying out this kind of auditing, auditors may be asked to establish not only whether the information is accurate and reliable but also whether it is timely and sufficient for the purpose for which it was prepared.

13.   An organisation may also ask its internal auditors to establish whether information is being wasted (in that the organisation may be making inadequate use of the data already available to it) or whether insufficient information is being prepared to meet the specific needs of the organisation. Audits of this kind, however, usually involve efficiency or effectiveness objectives of the kind discussed more fully below.

14.   There may also be occasions when an organisation looks to its internal audit section to provide unbiased factual data in respect of some aspect of the organisation's activities. An organisation would usually look to its research or operational areas to provide such information - and perhaps ask its internal audit to evaluate the information so provided - but in some circumstances there may be a case for turning to internal audit as a primary source of factual information.

(2) Compliance with Laws, Policies and Directives

15. *The purpose of many audits is to establish whether an organisation's functions are being carried out in a manner which complies with the relevant rules, policies or directives. Such auditing is sometimes described as 'compliance' or 'regularity' auditing.*

16. In addition to indicating which activities are to be audited from the compliance standpoint, audit management may need to specify which rules, controls or policies are to be taken into account when carrying out particular audits. It is often useful to do this in terms of the respective authorities which issue the directives, eg:

- Parliament

- Central Authorities

- The organisation's own management

17. Directives issued by Parliament are embodied, for the most part, in legislation and auditing concerned with this aspect is commonly known as legal compliance auditing. For obvious reasons legal compliance is a matter of particular concern to the external auditor but an organisation may also have good reasons for requiring its internal auditors to verify that its operations comply fully with all relevant legislation. Such legislation may include both Commonwealth and State laws.

18. The activities of every organisation in the Public Service need to conform with the policies and directives of the central authorities[2] and internal auditors may be called on to review their organisation's activities from this standpoint. In the past, both external and internal auditors have tended to concentrate on directives issued by the fiscal authorities.[3] There are, however, many other matters which are also the subject of directives by central authorities and which organisations might wish their internal auditors to review from the compliance standpoint. These include such matters as hiring and employment of personnel, the acquisition of goods and services, the operation of ADP systems, freedom of information, security, and a variety of other administrative policies and procedures.

19. It is hardly necessary to add that one of the major tasks of internal auditors in this area is to establish the degree of compliance with the policies and directives of the department or organisation itself. Such policies and directives usually cover a very wide field and they may incorporate or amplify directives issued originally by other authorities.

20. An important 'spin-off' of compliance audits is that they may reveal a need to review also the directives or management procedures of the organisation itself. For example, an audit which begins as a

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2   The term 'central authorities' should be interpreted as including the Commonwealth Government as well as all those authorities or departments with regulatory functions.

3   Such audits are usually described as 'financial regularity' audits.

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compliance audit might disclose problems which are due primarily to the absence of appropriate management controls. Internal auditors should always be alive to this possibility. In some instances too it may be found that an organisation's policies and objectives are obscure or inconsistent and that higher management needs to clarify them before the audit can proceed. To some extent it may be possible to avoid this latter problem by including in an organisation's audit manual appropriate material relating to its policies and objectives.

(3) Economy in Use of Resources

21. Some internal audits may be concerned to assess the economy and efficiency of certain activities or programs.[4] Audit appraisals of economy and efficiency are concerned primarily with evaluating the way in which the organisation is managing and utilising its resources.

22. The term 'economy' refers to the terms and conditions on which an organisation acquires its resources. Such resources may include personnel and any form of goods and services. An economical operation acquires the resources necessary for the operation in appropriate quantity and quality at the lowest possible cost. An economy audit is therefore concerned with the quantity, quality and price of resources acquired by an organisation. In particular an economy audit is designed to establish whether:

- the need for the resources has been clearly defined and related to program objectives;

- there has been an appropriate determination of quantity, quality, performance and other relevant requirements;

- resources have been acquired at the least cost, consistent with quantity, quality and performance requirements.

23. In audits of this kind an attempt is usually made to identify problem areas and establish the causes of uneconomical practices thus pointing the way to possible solutions or improvements. There is, however, no hard and fast rule concerning the depth and scope of internal audits in this area. Much depends on the nature of the problem, the audit resources available, and the terms of reference laid down for individual audits. In some instances, for example, the main audit effort may be directed towards establishing that adequate reviews of the economy of an organisation's operations are being carried out as a matter of course by line management or by way of other review mechanisms.

(4) Efficiency in Use of Resources

24. An organisation may expect its internal auditors to evaluate the efficiency with which its resources are being used. Efficiency in the use of resources may be the sole purpose of some audits or it may be only one of the aspects to be canvassed in the course of appraising some activity or program.[5]

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4   Audits involving these elements are sometimes referred to as 'value for money' audits.

5   Efficiency audits as described in this paper may therefore be much less ambitious projects than efficiency audits of the kind embarked upon in recent years by the Auditor-General.

25.   Efficiency is a relative term; it refers to the relationship between goods and services produced and resources used to produce them. The efficiency of a government program or operation depends on how well resources of all kinds (human, material, equipment, buildings, etc.) are used to produce the goods and services necessary to accomplish a program's objectives. An organisation is most efficient when it produces the largest possible output for a given amount of input (resources) or when the organisation meets its goals while incurring the least cost.

26.   Auditors are not in a position to express opinions on whether an entity has reached its maximum practicable level of efficiency but they are called upon to identify inefficiencies and situations where improvements in efficiency should be possible. Because of their close and continuing contact with its activities, internal auditors are often well placed to make well-informed (and frank) judgements of this nature. In some cases, however, relevant criteria on which to base objective audit opinions concerning the degree of efficiency may not be available.

(5) Effectiveness of Programs and Operations

27.   Assessments of the effectiveness of an activity or program are designed primarily to establish whether the desired results or benefits of that activity are being achieved. If the activity is ineffective the auditors seek to identify the causes and they may also be able to suggest or draw attention to alternative ways of achieving the objectives in mind.

28.   In most organisations line management has a continuing responsibility for keeping under review the effectiveness of the organisation's programs or operations and reviews of this kind are also carried out by a variety of external review bodies.[6] As in the case of efficiency auditing, however, the special position which internal audit occupies in an organisation may enable it to make a useful and positive contribution by carrying out effectiveness audits of selected activities or by drawing attention to activities or programs which merit early or further evaluation.

29.   Organisations need to be selective in choosing the activities to be audited from the effectiveness standpoint. A comprehensive review of a major governmental program, for example, would be a major undertaking and it would call for special knowledge and skills. It would also be inappropriate to call on internal auditors to evaluate the effectiveness of an activity or program if the objectives of the activity cannot be clearly defined or if accepted measurement criteria are not available. In some of these cases it may be possible, by a process of prior consultation with the internal audit unit, to arrive at a clear statement of the program's objectives, the measurement criteria to be employed and the nature of the data required for the measurement of program results.

30.   In some circumstances the role of the internal audit unit in respect of effectiveness reviews might be confined to appraising or commenting on effectiveness reviews carried out by other parties such as line management. In that event the internal audit unit might comment on such aspects as:

6   Including, for example, the Cabinet Committee on Review of Commonwealth Functions and the effectiveness reviews for which the Department of the Prime Minister and Cabinet is responsible. The Auditor-General's field of responsibility does not extend to effectiveness auditing.

.   the criteria and methods employed in assessing the results of the activity or program;

.   the relevance and reliability of the data used; and

.   the validity of the conclusions reached in the review.

(6) Diagnosis of Problems

31.   Much internal audit activity takes the form of studies and surveys which have a more limited or somewhat different purpose than full systems-based audits and in-depth audit projects. Such studies and surveys are not usually sufficient to support firm or final conclusions regarding the integrity, efficiency, effectiveness, etc., of the operations under review. More often, the object of such surveys is simply to diagnose problem areas, establish whether some further action or investigation is warranted and perhaps prepare the way for subsequent audits or reviews.

32.   There will be cases, for example, where internal auditors need to carry out studies of the future auditability of proposed systems. It is now accepted that preparations for auditing new and complex ADP systems should begin at the time when plans for such systems are being developed. If auditability and other adequate controls are not built into such systems from the outset it may be impracticable (and too costly) to rectify the situation when the time comes to audit the current operations. Nor is this problem confined to ADP systems; it can arise also in respect of significant manually-based systems.

33.   Certain kinds of audits have a diagnostic purpose. Most organisations find that their annual and strategic audit plans cannot accommodate the number of audits required if all of them were to be carried out as full systems-based audits. Accordingly, organisations may rely to some extent on what are commonly known as 'preliminary surveys' (several hours work) or 'concise audits' (several days work) as a means of ensuring that the whole of their auditable field receives at least some form of audit scrutiny within the period of the audit plan. Such auditing may not provide a complete assurance that all is well but it may serve to reveal the more obvious deficiencies and indicate whether there is a prima facie case for more detailed examination and review.

34.   Some audits of a more protracted kind may also have an essentially diagnostic purpose. Indeed, auditors are frequently not expected to take particular audits beyond the diagnostic stage. In some cases, for example, measurement difficulties or lack of relevant or agreed standards against which to audit may make it inappropriate to carry an audit beyond the point of identifying and diagnosing the nature of the problem.

35.   'Diagnostic' audits may therefore be carried out as a means of facilitating and preparing the way for other internal or external reviews. Internally, for example, they may help to pave the way for efforts by Management Advisory Services and line management to find solutions to the problems which internal audit has diagnosed. If, on the other hand, organisations decide that solutions to the problems require recourse to outside consultants or external review bodies, the diagnostic work already carried out by internal audit should serve to facilitate such reviews.

36.   This illustrates the point that an internal audit unit can provide a very useful diagnostic service to an organisation - particularly to the Audit Committee - by drawing attention not only to items which should be included in future internal audit strategic and annual plans but also to problems which appear to call for evaluations or reviews by outside bodies or by other areas of the organisation.

37.   Some organisations may wish their internal audit units to carry out a regular monitoring and surveillance role in relation to the effectiveness from the organisation's standpoint of reviews and surveys carried out by the various review units and authorities. If, for example, line management is normally responsible for program evaluations the internal audit unit may be in a position to comment on the way line management is carrying out that review function and to draw attention to any apparent deficiencies. In carrying out a monitoring role internal audit is well placed to ensure that appropriate follow-up action is taken in respect of the findings of the Auditor-General and of other review authorities.

(7) Other Specified Aims

38.   More often than not, audits have more than one aim and many audits will be concerned with most of the aims referred to above. As already pointed out, these aims do not fall into entirely separate categories; if, for example, a law or control stipulates the way in which economy is to be achieved, a compliance audit may cover the same ground as an audit undertaken for the specific purpose of assessing economy in the use of resources. Before any individual audit is undertaken it is desirable that the aim or aims of the audit be clearly defined.

39.   Some audits may be undertaken for purposes which are not mentioned specifically above and which may indeed be in conflict with those purposes. An organisation may, for example, be concerned primarily with the promptness - rather than (say) the economy or efficiency - with which some activity is being carried out and may seek an audit appraisal from that standpoint. Appraisals of this nature would normally include a review of the work-reporting systems and other controls exercised by management.

40.   There will be circumstances also where 'trade-offs' between objectives prove to be necessary. Internal auditors need to take such 'trade-offs' into account when arriving at their appraisals. Provided the relevant aims and criteria are clearly stated audit reports provided in this context can still be factual and objective.

III THE SUBJECT-MATTER OF INTERNAL AUDITS

41.   In principle there are few limitations on the subjects which can be remitted for internal audit examination. So far as the subject matter is concerned, the main requirement is that it should lend itself to objective audit appraisal in accordance with generally-accepted criteria.[7] An internal audit unit may therefore be called upon to appraise and report on virtually any aspect of an organisation's operations and administration.

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7   Essential features of the internal audit process are described in more detail in paragraphs 5 - 8.

42.   The material to be audited may take a variety of forms. The material may, for example, be in textual, statistical or computerised form. Modern internal auditing tends to be more concerned with evaluating systems or programs rather than checking multitudes of individual transactions. Nevertheless, some audits are concerned with particular transactions or with particular organisational units - especially in cases where those units carry out functions which do not cross organisational lines.

43.   In appraising an organisation's operations and administration, internal audit may provide assessments of policies, processes, systems or procedures. These may include planning, program evaluation, performance measurement, financial management, personnel management, ADP operations and a variety of operational activities and services to the public.

44.   In this paper - and particularly for purposes of the matrix in Section IV - matters for possible auditing are grouped into four main areas or categories, namely:

>   (1)   Financial and Accounting
>   (2)   Administration and Management
>   (3)   Operations and Services
>   (4)   ADP Systems

45.   These four categories are not mutually exclusive and in practice there will be some overlapping. For example, when auditing financial systems or when auditing particular operations, aspects of an organisation's management and ADP systems may also need to be taken into account.

(1) Financial and Accounting

46.   The auditing of financial and accounting systems and statements is a traditional audit function. It is in this area that auditing practices and standards have been most fully developed. It is also a field where the Auditor-General has special interests and responsibilities.

47.   Auditing in this area is concerned principally with financial administration and hence with appraising an organisation's financial and accounting procedures. These may include the procedures relating to the collection of revenue, the incurring of expenditures, the acquisition and preservation of assets and the proper recording and presentation of financial transactions and accounts.

48.   As most of the financial procedures to be followed are laid down by the central authorities, much of the internal and external auditing undertaken in this area is concerned with establishing whether there is compliance with the relevant 'external' controls and directives which emanate from those authorities. In carrying out this task, auditors pay particular attention to the nature and adequacy of the internal controls which organisations build into their financial and accounting systems.[8] Nevertheless, an organisation may carry out financial audits for other purposes - e.g., to satisfy itself that its financial administration or some specific financial operation is economical and efficient.

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8   The meaning of the term 'controls' - including the distinction between internal and external controls - is discussed in Attachment B.

(2) Administration and Management

49. Internal audit may be called upon to carry out periodic audits of the administrative and management services area of an organisation. This would embrace such matters as staff and office services and it may also include administrative support services such as security arrangements.

50. An active internal audit unit will be primarily concerned, however, with reviewing the management and control systems associated with the carrying out of the organisation's day-to-day functions and operations.

51. In some cases, the internal audit may be concerned only with establishing whether there is compliance with management policies and directives. (Nevertheless, as pointed out in para. 20, compliance audits can also play an important part in revealing apparent deficiencies in management systems and controls.)

52. In other cases, internal auditors may be required to appraise the management systems themselves. Audits of this nature clearly involve a closer knowledge of management systems and a more analytical approach than is required for compliance auditing. In making such reviews the nature and purpose of relevant directives, policies and management systems need to be known and taken into account. As with each of the other auditable areas described in this Section, an organisation's management system can be assessed from a variety of standpoints, e.g. efficiency, economy and effectiveness - or indeed, from any other standpoint which may be of concern to the organisation.

53. Although internal auditors will usually have some firsthand knowledge and appreciation of their organisation's policies and objectives they may require from time to time some guidelines as to the purpose or purposes which the relevant controls and management systems are designed to serve. If the purposes are complex or obscure auditors may find it difficult to arrive at objective opinions or avoid making policy judgements of their own. In such cases, it is a responsibility of management to clarify the matter. If internal audit is called upon to make in-depth appraisals in this area it may be useful to include in the audit team some personnel who have first-hand knowledge and experience of administration and management.

54. One question which may arise is whether internal audits should include in their purview controls and directives which emanate from central authorities such as the Public Service Board and the Department of Administrative Services. As Permanent Heads are responsible for the efficient management of their departments they have a legitimate interest in the impact on their organisations of centrally-imposed controls. Accordingly, an organisation may find it necessary or desirable from time to time to appraise the adequacy and need for external controls from the standpoint of its own interests and activities. An internal audit appraisal may indicate, for example, unnecessary duplication of controls or it may be found that certain controls emanating from a central authority are not fully consonant with particular departmental objectives such as the achievement of maximum efficiency or minimum costs. Objective audit reports on such aspects may be of interest and value not only to the organisation itself but also to the central authority concerned.

55. In most auditing situations, however, auditors will be concerned with the adequacy of an organisation's own management policies, practices and controls. In this connection, one aspect which may need to be kept under close review is whether there are too many controls; recommendations for the removal of unnecessary controls should be a high priority for audit teams concerned to improve economy and effectiveness.

(3) Operations and Services

56. Operations and services represent what might be regarded broadly as the 'productive' as distinct from the administrative activities of an organisation. They may take the form of various services to the government (e.g., policy advisory services) and services to the public (e.g., education, social security, health) or they may relate to a wide variety of functions which governmental organisations carry out in respect of the production, marketing or distribution of goods and services.

57. As activities in this category represent the main functions of most organisations it is to be expected that organisations will wish to keep them under close review and that internal audit will be called upon to carry out audits in this area.

58. Because of the diversity of such activities it is not possible to generalise on the circumstances in which such reviews should be carried out by internal audit rather than by way of other review mechanisms. Internal auditors have the advantage of close and continuing contact with an organisation's activities but in some cases they may not be in a position to carry out objective audits because of the lack of generally-accepted measurement standards. In some instances too they may lack sufficient knowledge of the subject-matter. In some circumstances it may be possible to overcome such difficulties by giving the internal audit unit some guidance as to the standards or objectives which are to be adopted for purposes of the audit appraisal and by including in the audit teams outside consultants or other personnel with the requisite specialised skills.

(4) ADP Systems and Services

59. When planning audits in each of the three categories of systems discussed above - financial, administrative and operational - it will usually be necessary to consider the extent to which the material or systems to be audited is in computerised form or involves the use of computers and to include in the relevant audit teams personnel with adequate knowledge of the computer operations involved.

60. Although the auditing of computer applications will mostly be carried out as an integral part of the audits of an organisation's financial, administrative or operational systems, organisations which use computers to any significant extent will also find it necessary to keep their computer activities as a whole under review. In respect of such organisations computers provide an important support function and the way in which that function is being carried out can therefore be a major subject for internal audit examination.

61. Aspects which might be appraised under this heading would include the administration of the data processing facilities and staff (including security arrangements), the quality of the data produced, the acquisition of ADP equipment, the development of new systems, the utilisation of facilities and the adequacy of the planning and implementation process.

62. As data processing is a highly technical and comparatively recent development, the primary concern in many organisations at the present time is to ensure that their controls over this activity are adequate. Much of the activity in this area at the present time is therefore concerned with assessing the degree of compliance with controls - and especially those relating to the integrity of the data produced. As in the case of any other function, however, audits of an organisation's ADP function may be carried out for a range of purposes of the kind canvassed in Section II - including the economy, efficiency and effectiveness with which the ADP function is being carried out. In this connection internal auditors should be assisted by the guidelines and other material relating to ADP included in Volume 4 of the Board's Personnel Management Manual.

63. In view of the complexity of most ADP systems organisations should seek audit advice when planning new or substantially modified ADP systems and applications in order to ensure that necessary audit and control features are built into the new systems at the outset. Wherever practicable, internal auditors should be used for this purpose.[9]

(5) Other Matters

64. Some of the matters to be audited may go beyond the four categories discussed above and some individual audits may fall into more than one category. As already indicated, virtually any aspect of an organisation's activities may prove to be a fit subject for internal audit.

IV MATRIX

65. The foregoing analysis of possible aims and subject-matters of internal audits is brought together in tabular form in the matrix below. The aims and subjects set out in this matrix are not listed in any particular order. Nor will some of them be relevant to the internal audit needs of some organisations - especially the smaller bodies.

66. This matrix provides a framework which might assist organisations in selecting the kinds of internal audit activity which will best meet their own needs. It does not purport to indicate all possible combinations of internal audit aims and subject-matters in the Service but it should cover all the combinations that most organisations in the Service are likely to require.

67. Organisations may find this matrix useful in planning both their overall audit programs and individual audits. Before any individual audit is undertaken it is important to define its purpose or purposes together with the subject or system to be audited and the matrix may provide a convenient framework for doing this. It is hoped that this matrix will also help organisations to achieve an appropriate balance in the composition of the items included in their strategic and annual audit plans. It is impracticable, however, to cover in a single matrix all of the aspects which may need to be specified or taken into account when defining or selecting audit projects.

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9   Organisations may approach the Auditor-General's Office for assessments of proposed systems - see Auditor-General's memorandum M79/250 of 22 April 1982. Use of external consultants may also need to be considered.

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MATRIX ILLUSTRATING POSSIBLE AIMS AND SUBJECT MATTERS OF INTERNAL AUDIT

Possible Subjects		Possible Aims							
Subjects in any of the following areas:		(1) Integrity of Information	(2) Compliance with Laws, Policies or Directives Specified by:			(3) Economy in use of Resources	(4) Efficiency in use of Resources	(5) Effectiveness	(6) Diagnosis of Problems	(7) Other Specified Aims
			Parliament	Central Agencies	Department					
(1) Financial and Accounting	A									
	B									
(2) Administration and Management	A									
	B									
(3) Operations and Services	A									
	B									
(4) ADP Systems and Services										
(5) Other (specify)	A									
	B									

A = Computerised Material or Systems
B = Non-computerised Material or Systems

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V SOME IMPLICATIONS FOR AUDIT MANAGEMENT

68.   Especially in the larger organisations the great potential range and diversity of internal auditing - both in respect of the activities which may be audited and the purposes for which such auditing may be undertaken - presents a number of problems and challenges for those responsible for managing the internal audit function.

69.   Some of the problems posed by this diversity can best be illustrated in terms of the range of knowledge and skills required. As noted at the outset, there are certain skills which internal auditors have in common - in particular they need to be skilled evaluators with knowledge and experience of the organisations to which they are attached. Within any sizeable organisation, however, there can be substantial differences in the nature of the systems to be audited and this may call for a variety of special skills and qualifications.

70.   The auditing of financial and accounting systems, for example, may require the services of auditors who are qualified accountants and who have a detailed knowledge of financial principles, standards and systems and of the relevant financial laws and regulations. The auditing of administrative or operational systems may call for personnel with very different skills and experience - and perhaps a different outlook. Apart from first-hand knowledge of management or of the particular operations being reviewed they may need to possess, above all, a real understanding of the management process if they are to carry out in-depth reviews meriting serious consideration by senior management. The auditing of complex ADP systems, on the other hand, calls for personnel whose audit qualifications include extensive technical knowledge of ADP systems and ADP auditing techniques.

71.   The nature of any audit task and the skills required to carry it out may also depend to a significant degree on the purpose or purposes for which an audit is undertaken. These may vary widely. For example, an audit confined to establishing whether any operation is being carried out in accordance with some directive or control is likely to require less knowledge of the subject-matter and less analytical capacity than an audit designed to appraise the effectiveness of that operation or the adequacy of the organisation's management system.

72.   Accordingly, an organisation which wishes to carry out auditing in a number of different fields and for a variety of purposes will almost certainly require a balanced mixture of audit staff who are not only trained in the fundamentals of auditing and have a broad understanding of their organisation's activities but who also possess expertise in selected functional areas. In this connection, an organisation may need to augment the capability of its internal audit unit by utilising the services of outside consultants or by seconding other personnel to internal audit from time to time as part of a career development program and as a means of building up properly balanced audit teams.

73.   Nor are the problems confined to finding and building up adequately qualified staff. It is clear also that in many instances organisations which wish to diversify their internal audit activities into fields such as efficiency and effectiveness auditing will need to clarify the objectives and standards which the auditors are to take into account. In some instances new standards may need to be developed.[10]

74.   It is obvious that no organisation should aspire to carry out, at any one time, the whole range of internal audit activity illustrated in the matrix. In other words, every organisation needs to adopt a selective approach in deciding what kind of auditing it should carry out and in what fields.

75.   The compilation and regular review of strategic and annual audit plans will help to promote a selective and disciplined approach to the selection of internal audit projects. Although there are no set rules as to the frequency with which any particular activity should be audited, strategic audit plans usually cover a period of 3-5 years and are designed to ensure that those matters which call for internal auditing are audited at least once during that period. The compilation of such plans compels organisations to be selective in their approach to audit programs. Consideration of these plans may also provide organisations with some early warning of the audit skills which its internal audit unit will need to acquire or develop if the organisation is to diversify its internal audit efforts.

76.   Finally, decisions concerning the nature and scope of an organisation's internal audit activities need to take account of the operations of other review mechanisms which may be relevant to its problems. These mechanisms may be internal or external to the organisation.[11]

77.   With regard to external reviews organisations should seek, as far as practicable, to take into account any current or projected external reviews and reports which may have a bearing on their own problems. They should also consider whether some of their problems are best dealt with by way of some form of external rather than internal review. Adoption of this approach will help to avoid unnecessary duplication of review efforts and assist organisations to identify those projects which merit internal scrutiny and review.

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10   This problem is discussed in more detail in the 184th Report of the Joint Committee of Public Accounts entitled 'Internal Audit in the Australian Public Service'. In para. 1.12 the Committee observed that '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.'

11   "External" reviews might include the operations of Parliamentary Committees, Committees of Inquiry, Judicial Bodies, and Statutory Authorities such as the Auditor-General and the Public Service Board. Joint Management reviews are in a category intermediate between internal and external reviews.

78. Within each organisation there is a corresponding need to avoid
duplication of its own review activities, to direct skilled resources
into areas of greatest need, and to ensure that there is proper liaison
and cooperation between internal audit, line management, and any other
elements in the organisation which have an interest in reviewing and
improving its operations. The need to develop mutually supportive
relationships between these various elements - including, where
necessary, the development of new forms of joint review arrangements - is
likely to be greatest in those organisations which seek to diversify
their internal audit activities and embark upon in-depth reviews designed
to evaluate and improve the efficiency and effectiveness of their
operations.

F.C. Pryor
October 1982

ATTACHMENT A

THE ROLE AND SCOPE OF INTERNAL AUDITING

EXAMPLES OF DEFINITIONS OR DESCRIPTIONS SINCE 1968

PSB Circular No. 1968/20

'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.'

PSB Circular No. 1979/8

'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.'

Institute of Internal Auditors 1971

'Internal auditing is 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.'

'The Internal Auditor December 1979

Internal auditing is '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.'

(Exposure Draft of the Standards for the Professional Practice of
Internal Auditing.)

US General Accounting Office 1974

'The overall objective of internal auditing is to assist agency management in attaining its goals by furnishing information, analyses, appraisals, and recommendations pertinent to management's duties and objectives. Internal auditing is a staff and advisory function not a line-operating function.   . . .

The internal audit function uniquely supplements routine management checks through its independent approach and methods of review.'

US General Accounting Office 1981

'The three elements of expanded scope auditing are:

1.   Financial and compliance - determines (a) whether the financial statements of an audited entity present fairly the financial position and the results of financial operations in accordance with generally accepted accounting principles and (b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements.

2.   Economy and efficiency - determines (a) whether the entity is managing and utilising its resources (such as personnel, property, space) economically and efficiently, (b) the causes of inefficiencies or uneconomical practices, and (c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

3.   Program results - determines (a) whether the desired results or benefits established by the legislature or other authorising body are being achieved and (b) whether the agency has considered alternatives that might yield desired results at a lower cost.'

(Standards for Audit of Governmental Organisations 1981 Revision.)

Canadian Internal Audit Standards 1982

1.   Role of Internal Audit

'Departments shall have an independent internal audit function that carries out a systematic review and appraisal of all departmental operations for purposes of advising management as to the efficiency, economy and effectiveness of internal management policies, practices and controls.'

2.   Scope

'The scope of internal audit shall encompass all aspects of a department's operations. The internal auditor assesses and expresses an opinion upon:

(a)   The design, development, implementation, and operation of all systems, procedures, processes and controls, including computer-based systems;

(b)   The reliability and adequacy of information available for decision-making and for accountability purposes;

(c)   The extent to which available information is utilised in the decision-making process;

(d)   The adequacy of protection afforded public funds and assets; and

(e)   The extent of compliance with legislative, central agency and departmental directions.

THE MEANING OF THE TERM 'CONTROLS'

It is sometimes suggested that the primary aim of internal audit is to evaluate the adequacy or effectiveness of an organisation's 'controls'. Examples of these suggestions appear in Attachment A - eg in the 1971 definition put forward by the Institute of Internal Auditors Inc. and in the Canadian Government Internal Audit Standards 1982.

2.   In audit literature the term 'control' is used in a variety of senses. When used in its widest sense the term may be regarded as synonymous with 'management' - i.e. a control process is simply a management process while a control system is just another way of describing a management system. On this view a control system would embrace all aspects of management including the setting of objectives and policies, the development of the procedures and techniques required to direct and monitor the activity, and the taking of follow-up action. The control process is described in these terms in the 1982 Canadian Government Standards for Internal Audit.

3.   More commonly, the term is used in a more restricted sense and applied only to certain aspects of the management process. On this view it is regarded as an instrument of management and is used to describe the procedures and techniques which are employed to direct and monitor an activity. Controls in this sense can be regarded as the procedures and processes which need to be followed if overall policies and objectives - such as compliance, efficiency and effectiveness - are to be achieved. In practice such controls tend to be concerned principally with ensuring the accuracy and security of data and the validity of system outputs.

4.   A distinction may be made between 'internal' and 'external' controls. 'External' controls are those which are imposed from outside an organisation. In the Public Service such controls emanate principally from Parliament or from the Central authorities and set out, inter alia, the procedures and processes which those authorities require Public Service organisations to follow. External controls can be regarded as the means employed by such authorities to direct and monitor various functions and activities carried out by Public Service organisations. These external controls may consist of laws and regulations but they may also take the form of directives, policies, or other procedures laid down by a higher authority. Well-known examples of external controls include those over public revenues and expenditures issued by or through the financial authorities and the controls over personnel and administrative procedures exercised by the Public Service Board.

5.   External controls are sometimes said to include also the 'softer' controls which are exerted, in effect, by external review agencies (eg the Auditor-General, Parliamentary Committees, etc.). These softer controls may take the form of recommendations, findings or guidelines which an organisation may not be obliged to implement but is unlikely to ignore.

6.   Internal controls are those exercised by or within an organisation. They represent the means employed within an organisation to direct and monitor its activities. Internal controls may sometimes cover much the same ground as external controls but they are usually concerned with more detailed procedures and techniques and are designed to meet the organisation's objectives. They are frequently embedded as an integral component of manual and automatic systems. Whereas external controls serve to define the parameters and general procedures within which individual organisations must operate, it is usually necessary to develop at the 'work-face' more detailed controls and control techniques to ensure that the organisation's objectives are achieved and that particular operations and activities are properly administered and monitored. In many cases internal controls are developed as a means of ensuring compliance with external controls and directives.

7.   It is often suggested that auditors should concentrate on assessing the adequacy of an organisation's internal controls. If it is found that the internal controls and related techniques (check-points, authorisation and approval systems, etc.) appear to be adequate, detailed auditing of individual transactions and operations is then unnecessary. Adoption of this approach is clearly desirable in many audit situations - and particularly in respect of financial and administrative compliance auditing. In some circumstances, however, such an approach may be peripheral, impracticable or ineffective - for example, when the purpose of the audit is to review the effectiveness with which an operation or program is achieving its objectives.

8.   Finally, it might be noted that at one time the Institute of Internal Auditors Inc. and other authorities used to refer to internal audit in terms which suggested that it was itself an internal control which functions by measuring and evaluating the effectiveness of other controls (see Attachment A). This description suffers from two main difficulties. First, in suggesting that internal audit is concerned only with controls, the definition understates the scope of internal audit. Secondly, it is plausible to think of internal audit as being itself a control only if the term 'control' is deemed to cover any activity which happens to be of some assistance in directing or monitoring an activity. In that event, however, a wide variety of review mechanisms - including those described in paragraph 5 above as 'softer' controls - would also have to be regarded as 'controls'. It is interesting to note that the Institute of Internal Auditors no longer defines internal auditing in these terms.

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TRAINING DOCUMENTS

While prepared for use in training courses these documents are also of general interest.

1   Working Papers for Internal Audit*

2. Planning for Internal Audit*

3   Statistical Sampling for Internal Audit*

4   Reference Documents

5   The Exit Interview*

6   Reporting Internal Audit*

9. Quality Assurance for Internal Audit

    * Prepared as part of a teaching module on the subject, and generally incorporating case studies, and exercises.

OTHER PAPERS

Senior Management and Internal Auditing - Summary of an Address given by Mr F.C. Pryor OBE (1979)

Contracting-out of Internal Audit Services - Report by Joint Implementation Committee on Internal Audit (1981)

Strategy for Development of ADP Audit Training (July 1982)

IDAC PAPER NO. 31

THE DEVELOPMENT OF DEPARTMENTAL ARRANGEMENTS

FOR ADP AUDITING

Interdepartmental Advisory Committee on
Internal Audit

June 1981

PREFACE

This Paper is designed to assist departments in organising
and developing their ADP auditing activities.

It reviews the main ADP audit tasks and the associated skills
which may be required and then canvasses various ways in
which these skilled audit resources might be organised. The
Paper is particularly concerned with the problems of those
organisations which rely extensively on complex computer
systems and require the services of ADP audit specialists.
The Paper suggests that, if they have not already done so,
such organisations should immediately draw up forward plans
with a view to overcoming these problems within a specified
period. The Paper also recommends that departments give
their full support to the Board's training courses and other
measures designed to develop ADP auditing knowledge and
experience in the Service.

In accordance with the usual practice, this Paper is being
circulated to all departments and statutory authorities
staffed under the Public Service Act. It will be of interest
predominantly, however, to those organisations with extensive
and complex computer systems.

The Paper does not put forward views or recommendations
concerning the quantum or salary classification of the staff
resources which organisations might devote to ADP auditing.
The Committee recognises that these are matters for considera-
tion by each individual organisation in conjunction with the
Public Service Board.

F.C. Pryor
Chairman
Interdepartmental Advisory Committee
   on Internal Audit
Public Service Board
CANBERRA
June 1981

THE DEVELOPMENT OF DEPARTMENTAL ARRANGEMENTS FOR ADP AUDITING

CONTENTS

THE DEVELOPMENT OF DEPARTMENTAL ARRANGEMENTS FOR ADP AUDITING

CONTENTS (Continued)

THE DEVELOPMENT OF DEPARTMENTAL ARRANGEMENTS FOR ADP AUDITING

I. INTRODUCTION

Purpose of Paper

1.1   An action program to improve the Service's capability for the internal audit of ADP systems and services was announced by the Board in PSB Circular No. 1980/7 of 1 April 1980. One of the main objectives of this program is that virtually all internal auditors in the Australian Public Service should be capable of involvement - at least in some degree - in the audit of ADP systems and services. Accordingly, high priority has been given to the provision of basic training in ADP auditing for the main body of internal auditors. The actual level of involvement of internal auditors in ADP auditing can be expected to vary in individual cases but it is hoped that this training, together with the practical experience gained from their membership of teams addressing the audit of ADP systems and services, will provide many internal auditors with the skills necessary to cope with a relatively wide range of ADP audit situations.

1.2   At the same time, the Board recognised the need for more specialised ADP audit services. Steps already being taken by the Board to meet this need include the development of an advanced ADP audit training course for selected officers and the engagement of consultants to conduct pilot audit projects involving advanced ADP audit methodologies. As part of its action program, the Board also referred to the need to identify the role and responsibilities of ADP audit specialists and to develop appropriate organisation and staffing arrangements for meeting the current shortage of such personnel. The present Paper represents a first step towards meeting this need.

1.3   The Paper reviews the tasks which ADP auditors may be called on to perform and the extent to which these tasks may require specialisted knowledge of computing. It then proceeds to canvass various arrangements - such as the establishment of specialised ADP audit units, the judicious use of consultants and further training of personnel - which might be made by those departments and authorities which require skilled ADP audit services. The Paper concludes by emphasising the need for forward planning and systematic action by such organisations and recommends certain lines of approach which they might adopt.

The Need for ADP Audit Specialists

1.4   There is evidence that a growing number of organisations, both national and international, which have committed themselves to ADP techniques are recognising the need to develop or gain access to ADP audit capability of a high order. This need is most

- 2 -

often seen in, but is not restricted to, complex on-line/data base systems. The place of ADP audit within the structure of organisations naturally varies considerably, but there is an increasing demand for technically trained ADP audit specialists. Experience in Australia and overseas suggests that departments which rely to any significant extent on computerised operations will find it necessary - at least from time to time - to have access to the services of ADP audit specialists and that some departments with sizeable or complex computer systems will need to give serious thought to establishing groups of such specialists within their own organisations.

1.5   Some of the ADP developments which have contributed to the need for ADP auditors are:

- . the use of computers has created the need to develop new control techniques appropriate to the technology;

- . the emergence of complex software systems which have replaced clerical, environmental and processing controls;

- . on-line networks which have decentralised access to the computer centre;

- . data-management technology and concepts which have made data potentially more accessible;

- . the proliferation of mini and micro computers which are often used by personnel with little or no ADP expertise;

- . the trend towards concentration of the information assets of an organisation in ADP (with consequential privacy concerns and the creation of a higher loss potential in one area).

1.6   The growing automation of office procedures and communications covering such things as electronic mail and funds transfer coupled with increased emphasis on distributed processing may accentuate this need.

1.7   These techniques, some of which are currently in use within the Service, require of auditors a greater depth of technical ADP knowledge than was previously necessary. Moreover, these developments have brought with them a need for closer involvement of skilled ADP auditors in the development of ADP systems. It is argued by a number of authorities that the internal auditor should be concerned with all aspects of an ADP system - including effectiveness and efficiency considerations -

and that he should be directly involved in the design of a system's 'auditability'.[1]

1.8   If informed judgements are to be made concerning the need for ADP audit specialists it is desirable, in the first instance, to review the full range of tasks which may come within the purview of ADP auditing. Such a survey is contained in Chapter 2. At the same time special attention is paid to six categories of ADP audit activities which (in varying degrees) may require the services of ADP audit specialists. These relate to computer centre audit, audit of systems under development, audit of technical services (communications, data base and software systems), audit of continuing systems, audit research and development, and audit involvement in hardware/software acquisitions.

1.9   ADP audit authorities such as Javier Kuong have assessed the diversity of these audit activities to be beyond the scope of any one individual. It should also be noted, however, that the full range of audit tasks discussed in the next Chapter will generally not be relevant in any organisation at any one time; computer installations and systems have a certain life cycle which may render it inappropriate - if not impossible - to carry out the full range of audit activities at a particular point in time. It will be obvious also that many of the audit tasks described in the next Chapter would not be required in respect of the simpler computer systems. More generally, the extent to which ADP auditing is carried out by organisations will depend primarily on the resources which can be devoted to this function and decisions on that aspect will naturally be influenced by other competing demands on the quantum of financial and staff resources available. Accordingly, many organisations may need to adopt an evolutionary approach towards the development of an ADP audit capability rather than seek a complete ADP audit coverage immediately.

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1 In his publication 'Audit and Control of Advanced/On-line Systems' Javier Kuong argues that:

'Audit approaches need to be changed to deal with the "dynamics" of advanced systems, from a "snapshot" conventional audit approach to a more frequent and/or "continuing" view of what goes on in the system. The traditional "once-a-year" audit approach can be very limited and dangerous.

The auditor will be increasingly called upon to plan, design and build in the necessary "auditability" provisions into the system to accomplish audit goals and, where possible, have the system audit itself dynamically.

Auditor involvement during system design and implementation becomes increasingly necessary. Auditors will require a solid knowledge of EDP and will need to place more emphasis on "anticipatory", as opposed to "reactive" auditing posture.' (Ch. II-4)

2. REVIEW OF ADP AUDIT ROLE

General Nature of Role

2.1   Some indication of the range of matters of possible concern to ADP auditors is given in the Audit Practice Manual which is being circulated as IDAC Paper No. 39 for the use of internal auditors. That Paper provides guidelines for the auditing of the controls over computer-based systems recommended in the PSB Personnel Management Manual. These controls - which are listed in Attachment A - fall into the following categories:

- Acquisition and Implementation Controls
- Management and Organisational Controls
- Physical Security Controls
- Application System Controls
- Operations Controls
- Systems Software Controls
- Processing Controls
- Data Integrity Controls
- Communications Controls
- External Service Bureaux Controls.

2.2   It is apparent from this list of controls that the internal ADP auditor may need to be involved at various (if not all) stages of the system development cycle. Apart from more general auditing activities - such as audit assessments of the efficacy of an organisation's ADP operations as a whole - the internal auditor may need to be involved, for example, at the stage where feasibility and acquisition proposals are being assessed, at the development and implementation stage and at the stage where it is a matter of auditing the operations of established and continuing ADP systems.

2.3   It is clear also that ADP auditing may be concerned with a wide variety of purposes. It may, for example, be concerned with one or more of the following:

- ensure accuracy and validity in all phases of ADP operations;

- check the effectiveness of the system in meeting the needs of users;

- assess the efficiency of the system and the cost-effectiveness of its use of resources;

- make sure that prescribed policies and procedures are being followed;

- prevent fraud;

- protect privacy;

- ensure security of people, data programs and hardware;

- any other items which (subject to management approval) should be checked by the internal auditor.

2.4   The contents of the Audit Practice Manual illustrate the point that the review and evaluation process involved in assessing ADP controls is essentially the same as for any other controls in that the auditor is concerned with such aspects as whether a control is present, whether it works adequately and whether it can be improved. For reasons given in the previous Chapter, however, there are many ADP auditing situations which also require the auditor to possess in-depth knowledge of ADP systems and an ability to use ADP techniques as an integral part of his work.

2.5   Set out below is a description of six categories of ADP audit activities which (in varying degrees) call for first-hand knowledge of ADP systems and techniques. This classification is based largely on an organisation structure proposed by Javier Kuong. It sets out to describe how a large specialist ADP audit unit might operate if it consisted of six groups of ADP auditors with each group specialising in one of the following aspects of ADP audit work:

(i)   audit of the computer centre

(ii)   audit of systems under development

(iii)   audit of technical services (communications, data base and software systems)

(iv)   audit research and development

(v)   audit of continuing systems

(vi)   audit involvement in hardware/software acquisitions.

(i) Computer Centre Audit

2.6   The computer centre in this context covers not only the physical aspects of the centre (including decentralised sites) and those various systems controlled by an operations section which would be classified as environmental or system wide, but also the organisational aspects of the ADP unit. The audit of certain systems such as back-up or change control which have a significant software content would concentrate on ensuring compliance with design constraints or procedural manuals. The audit of the design of these systems would be handled under the Technical Services Audit (group iii - p.10)

Organisational Review

2.7   This would cover both the division of responsibilities between the ADP Branch and the remainder of the organisation, as well as the internal structure of the ADP Branch. Implications of a two or three shift operation would be relevant.

Housekeeping Procedures

2.8   This task relates to the procedures in force for efficient disk space management, back-up of data sets, processing of systems log, analysis of data set usage, cold start options, etc.

Change Control System

2.9   This system relates to the operational procedures for accepting changes to members of system libraries such as source and object programs, job control procedures, alterations to network and terminal definitions, and protected data set catalog entries. Particular attention should be paid to the documentation of requests for changes (i.e. authorisation), registration of changes made for retrospective purposes, and fall-back procedures should changes have to be backed off. (Provision should also be made for proper authorisation of the operational use of the changed routines and programs by the management concerned.)

Job Accounting System

2.10   This system should be reviewed to ensure that all jobs are authorised, that they access approved data sets or libraries, and are allocated to an approved user. Jobs in this context should cover not only batch systems but also processing initiated through interactive facilities, and other network terminals.

Review of Network Facilities

2.11   It will be necessary for ADP audit to review periodically not only the system for authorisation and inclusion of network facilities (i.e. lines, terminals, dial-up) but also to carry out checks on the actual components of the network.

Fault Reporting System

2.12   A review should be made of the procedures in force for notifying, registering and progressing faults detected in the system (primarily applications programs and system software). This system will normally encompass analyses of faults and progress reports on outstanding faults.

Other Tasks

2.13   Other tasks might include:

> Site physical security
> Input/output control groups
> Operating procedure manuals
> Operator training
> Disk data set management
> Tape library procedures
> Tape management system
> Control of system and other utilities
> Control of negotiable documents
> Disposal of print, magnetic media, etc.
> Hardware maintenance arrangements
> System availability management.

(ii)   Audit of Systems Under Development

2.14   To carry out this task, ADP audit needs to be involved at specified review points in the system development cycle. Both new applications and major revisions (or releases) to existing ADP systems would fall in this category, whereas minor changes to individual programs would come under change control.[2] It is assumed that management would regard it as essential that auditability be incorporated into new systems during the development stage.   In that event ADP audit could provide some form of certification in the development process as opposed to historical reporting to management.   Some possible review points are discussed below and an overview of review stages is provided in Figure 1 (see page 8).

Initial Proposal/Feasibility Study

2.15   Any supporting financial analysis, or cost/effectiveness study should be reviewed. Not all systems will be justified on cost/effectiveness grounds, but the audit should take proper account of all relevant costs and benefits - both tangible and intangible.

- Audit should verify that all interested and affected users have been consulted and their present and future needs are reflected in the proposal.

- Project management and control should be an integral part of the proposal, and should be reported on for

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2   On some occasions, however, minor program changes may arise from alteration of the basic system specification.   In this case the change and the work leading up to the change should be subject to the same controls that apply to systems under development.   66

FIGURE 1
SYSTEM DEVELOPMENT AUDIT AND REVIEW STAGES
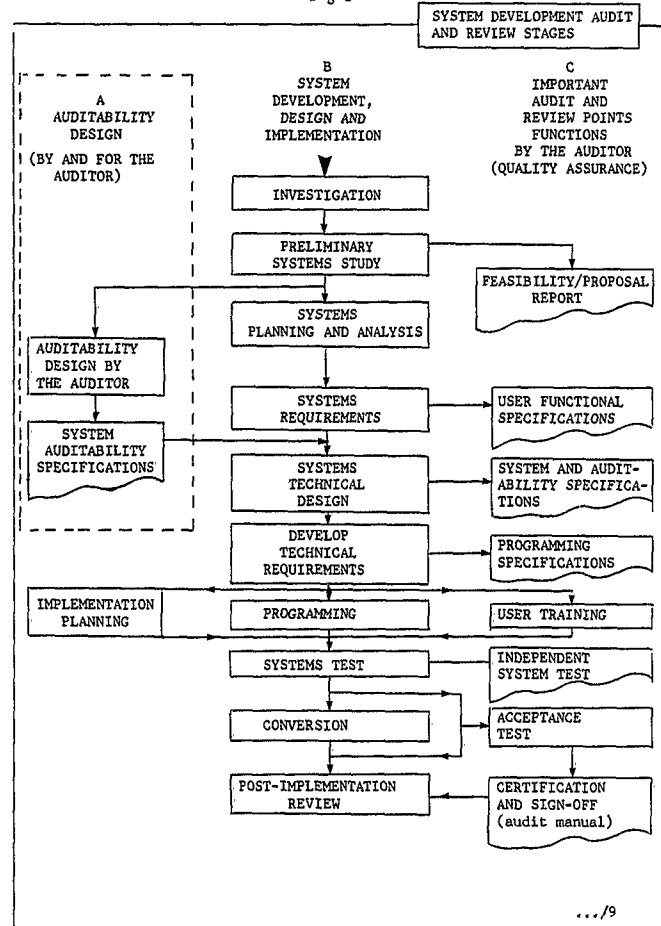
existence and reasonableness (e.g. methodology to be used and risk areas identified).

- A plan should exist for the training of users and operators requiring new or upgraded skills.

- Where new technology is to be used without full appreciation or demonstration of its capability and reliability, the risk should be assessed in the proposal.

- An examination should also be made of the effect that a proposed system may have on other relevant systems within or outside the organisation.

User Functional Specifications

2.16   Internal audit should review, possibly in collaboration with invited experts, the user specifications for adequacy, efficiency and the existence of controls.

Auditability Specifications

2.17   When reviewing the auditability specifications the auditor should, in addition to reviewing in-built controls, pay attention to ways in which the system can be audited by other than manual or retrospective techniques.

Design and Program Walk-throughs

2.18   These are reviews of design and programming which may be conducted at a peer level in a semi-formal discussion group. The advantage in internal audit participation is that the system will be more readily understood and changes can be effected at an early stage to facilitate auditability.

User Training

2.19   As training is frequently integral to the success of a system, internal audit should review the adequacy, scope and cost of the training plans proposed.

Program Acceptance, System Testing, Volume Testing

2.20   In respect of each of the above three control points, ADP audit should be responsible for advising management of the audit aspects and for providing management with some form of certification as to the auditability at that point in time of the program or system.

2.21   At some pre-arranged time after the full implementation of a system, a review should be conducted to assess and report on the extent to which a system has met specific objectives. These could be quantified against the original or modified cost/effectiveness estimates.

(iii)   Technical Services Audit

2.22   This specialist group would cover such matters as data base, communications and operations software systems. This section reviews these tasks even though they are likely to vary considerably between installations. The software code supplied and utilised by an organisation, the particular way in which that software is implemented, together with the appropriate operational documentation (usually represented by systems such as tape management or system logging), and the administrative arrangements necessary to control the more complex software systems such as DBMS and Data Dictionary are covered here.

2.23   Areas which may require review include:

- organisational arrangements for the division of responsibilities within:

  - data administration
  - software programming
  - performance evaluation and review

- system-wide procedures for efficiency, accuracy and reliability

  - system DB/DC logging
  - regression testing
  - transaction accounting/reconciliation

- software systems for efficiency, accuracy, security and reliability

  - operating systems
  - data base management systems
  - data dictionary/directory systems
  - communications software

- privacy/integrity provisions

  - design of back-up procedures
  - restart and recovery procedures
  - system abend procedures
  - design of password systems.

(iv)   Audit Research

2.24   Whilst the earlier parts of the Chapter have reviewed some of the tasks considered necessary in the audit of known and current ADP systems and services, account must also be taken

of new technology which may be relevant to these systems or to associated audit techniques. Although primary audit objectives remain unchanged, the techniques for auditing advanced ADP systems will be quite different, and may require substantial research and training.

2.25   In many instances there has been a considerable time-lag between the implementation of new ADP techniques, generally software, and the corresponding development of auditability. Moreover, the current rate and extent of technological change - which is unlikely to diminish - will pose new challenges. To meet these challenges it will be essential that ADP auditors be involved in research into this emerging technology. Development programs exploring the auditability requirements of this technology will need to be undertaken in some Public Service organisations and some of this research may have to be carried out and shared on a Service-wide basis.

2.26   Some newer approaches to auditing ADP systems are illustrated in Figures 2 and 3 (see pages 12 and 13). Other areas which are likely to undergo change and are of interest to audit are:

- Data base management systems
- Operating systems
- Distributed processing
- Communications systems
- Intelligent terminals
- Project and DP management
- Standards
- Feasibility/Proposal reports on equipment and software acquisition
- Electronic mail
- Management/Audit trails
- Disaster plan reviews.

(v)   Audit of Continuing Systems

2.27   A primary objective of having ADP Audit involved in the system design and development cycle is the incorporation of auditability into the system. Another essential objective would be the provision of a manual on how to audit the system in operation. Such a manual would reduce the need for skilled ADP audit specialists to take part in subsequent audits of continuing systems.

2.28   Similarly the need for specialist ADP auditors may be reduced where audit teams have evolved satisfactory procedures for auditing around the computer or applying after the event controls in respect of systems which do not possess in-built auditability. Audit techniques likely to be applied in these

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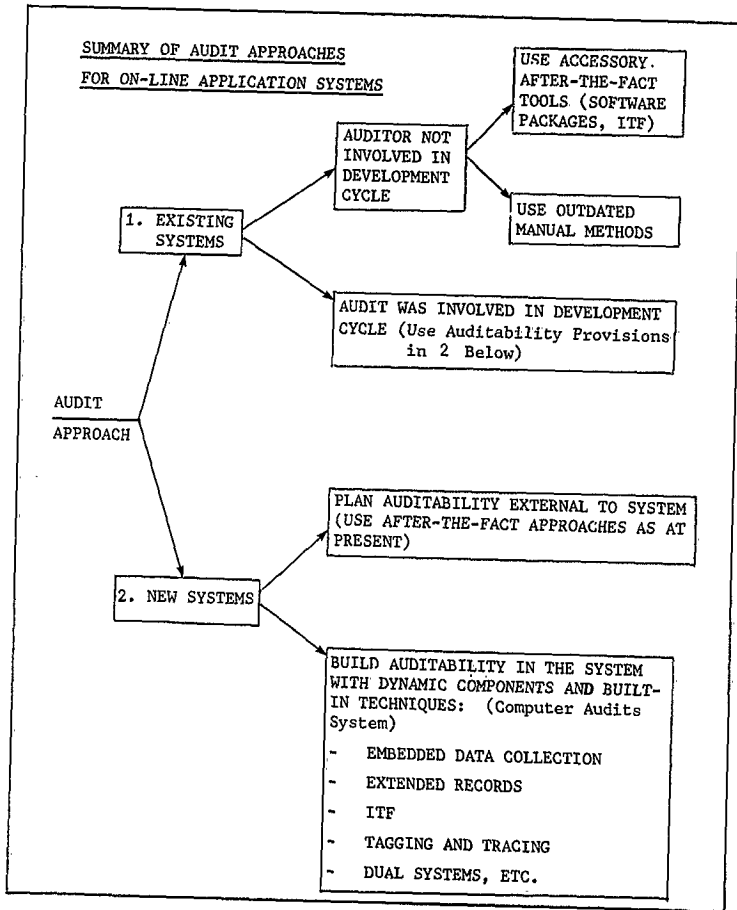CONCURRENT AUDITING BY EMBEDDED AUDIT ROUTINES AND BY PARALLEL OR INDEPENDENT AUDIT MONITOR

IN-LINE AUDITING WITH EMBEDDED AUDIT MODULES IN THE SYSTEM

PARALLEL AUDITING WITH AUDIT CAPABILITIES IN AN "INDEPENDENT" OR MONITORING SYSTEM   (MINICOMPUTER, PARALLEL SIMULATION (BATCH) SYSTEM)

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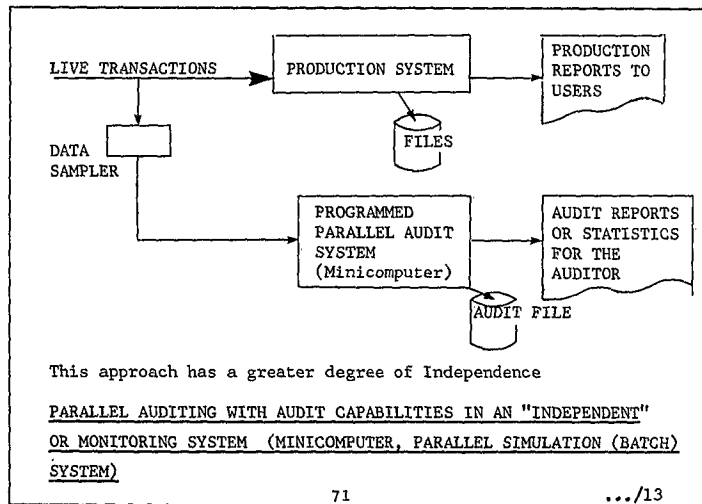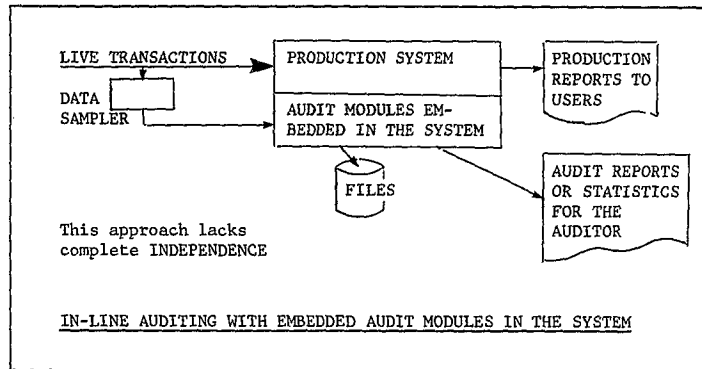
SUMMARY OF AUDIT APPROACHES
FOR ON-LINE APPLICATION SYSTEMS

AUDIT
APPROACH

1. EXISTING SYSTEMS

AUDITOR NOT INVOLVED IN DEVELOPMENT CYCLE

USE ACCESSORY. AFTER-THE-FACT TOOLS. (SOFTWARE PACKAGES, ITF)

USE OUTDATED MANUAL METHODS

AUDIT WAS INVOLVED IN DEVELOPMENT CYCLE (Use Auditability Provisions in 2 Below)

2. NEW SYSTEMS

PLAN AUDITABILITY EXTERNAL TO SYSTEM (USE AFTER-THE-FACT APPROACHES AS AT PRESENT)

BUILD AUDITABILITY IN THE SYSTEM WITH DYNAMIC COMPONENTS AND BUILT-IN TECHNIQUES: (Computer Audits System)

- EMBEDDED DATA COLLECTION
- EXTENDED RECORDS
- ITF
- TAGGING AND TRACING
- DUAL SYSTEMS, ETC.

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situations could encompass integrated test facilities, generalised audit software packages, test data approaches or traces of selected transactions.

2.29   In many, if not most, organisations a substantial proportion of ADP audit resources need to be devoted to the auditing of the continuing systems which process the organisation's data. If these systems do not have auditability built into them, it may well be necessary for ADP audit specialists to devote a lot of time to them. Unfortunately, despite lack of auditability, it is often the case that such systems are regarded as essential (for example, they may process much of an organisation's data) and may have many years of useful life to run.

2.30   The ADP auditor's task in this area is more difficult than in many others because he has to examine the system control deficiencies, and consider ways in which those deficiencies may be corrected or compensated. Since the system may need to continue to operate for many years, the possibility of changing it to include auditability and control enhancements should not be ignored but due thought should be given to the cost of such an exercise.

2.31   Accordingly - and especially in circumstances where continuing systems do not have auditability built into them - ADP audit specialists are likely to be required to carry out reviews for specified audit objectives such as:

- developing a special set of programs
- rerun of transactions over a given time period
- after-the-fact audit-integrity checking by obtaining selected prints from files using generalised software or particular access techniques
- reviews of program logic.

2.32   Clearly the range of techniques is such that, wherever practicable, this approach to the auditing of continuing systems should be discouraged in favour of a more systematic method. However, there will be a need to carry out such 'ad hoc' approaches in most departments until the newer approaches are incorporated in all operational systems.

(vi)   Hardware/Software Acquisition

2.33   The principles and procedures to be followed in the acquisition of ADP hardware, software and associated services by departments and authorities staffed under the Public Service Act are set out in PSB Memorandum 81/1972 of 7 May 1981. In an associated statement the Minister Assisting the Prime Minister

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indicated that the main purposes of these procedures are to provide better control, speed up the acquisition process, and ensure that the 'ADP capbility acquired by the Commonwealth represents the most efficient, economical and appropriate answer to its problems.'

2.34   It is a matter for each department or authority to determine the extent of internal audit involvement in respect of these acquisition procedures. It should be noted, however, that, in response to a Public Accounts Committee recommendation, departmental managements have been requested to ensure that their internal audit programs provide for internal audit evaluations at appropriate intervals of the soundness, adequacy and application of acquisition control processes.[3]

2.35   Apart from general appraisals by internal audit of the acquisition procedures themselves - for example, audit reports as to compliance with the prescribed procedures - the acquisition processes may embrace a wide range of matters relevant to internal auditing. These may include such aspects as:

.   review of the adequacy of the steps taken by the organisation to ensure that proposed purchases and the organisation's ADP strategic plan are in line with departmental objectives and priorities and that the requisite tests relating to essentiality, cost-effectiveness and viability have been performed adequately;

.   evaluations of particular hardware and software acquisitions from the standpoint of their reliability, accuracy and effectiveness in achieving their stated aims. Audits of this kind may call for ADP auditing skills of a high order.

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3   See recommendation 14 in the Public Accounts Committee's 174th Report on Acquisition of ADP Systems in the Public Service and Page 9 of PAC Report 183 entitled 'Finance Minutes on Reports 174 and 175'.

3. ADP AUDIT RELATIONSHIPS

3.1   In this Chapter the relationships between the activities of the ADP audit group and other areas of a large organisation are reviewed in more detail with particular attention being given to the interation between auditors and ADP staff and, where relevant, to the working relationships between ADP audit specialists and other internal auditors. (For purposes of exposition it is assumed in this Chapter that the ADP operations of the organisation are such as to warrant the establishment of a specialist ADP audit group.)

3.2   No attempt is made in this Chapter to argue the case for the formation of ADP audit teams within internal audit units or to describe in detail the manner in which audit teams composed of ADP audit specialists and non-specialist auditors might operate. The need for such teams within internal audit units has already received widespread recognition although the particular arrangements for such teams may vary from one organisation to another. Much of this Chapter is based on the view that, as the requisite skilled resourses are in short supply and as the nature of the tasks within each ADP audit project will usually call for varying levels of audit skills, a team approach to the auditing of ADP systems will often provide the most effective solution. The team approach concept can also be extended to cover all those associated with reviews of ADP operations in an organisation.

Computer Centre Audit

3.3   It is likely that at least some aspects of the computer centre's operations will be subject to continuing review by the ADP audit group. On the procedural side it would be expected that, after receiving approval from Management, ADP audit would advise their audit plans to the ADP section before proceeding to conduct an audit. In these circumstances entry and exit interviews and reporting would be appropriate. There are some audit activities which might require a somewhat different approach - for example, checks on password control and reviews of such aspects as job accounting or data set access.

3.4   As to the relationships between the ADP audit group and other internal auditors, it should be borne in mind that in their audits of continuing systems internal auditors are making increasing use of computers and therefore need to be sure that a satisfactory review has been made of the components of the computer centre. Accordingly, there is a need for close liaison and for arrangements to ensure that all internal auditors concerned with this matter are kept fully informed; in some cases there may be a need for shared access to working papers. Nor should it be overlooked that auditors with only a basic ADP knowledge can still perform some valuable tasks in auditing the computer centre and be valuable members of ADP audit teams.

Audits of Systems Under Development

(i) Interface with ADP

3.5   It is assumed that the main audit objectives here would be to have auditability incorporated at the systems development stage. The nature of this type of activity will be character- ised by predictable review points. As the timing for these reviews is likely to be under the control of a project leader (often from ADP) this person should be responsible for advising the ADP audit unit of the timing and scope of such matters as design walk-throughs and program acceptance meetings.

3.6   The extent of audit involvement will depend on the nature of the review point reached. In some cases it may not take the form of a conventional audit with objectives and concluding reports but may be confined to some form of certification on the part of the ADP auditors that they are satisfied with the processes reviewed to that point. For example, when programs are first submitted for acceptance into the production libraries, ADP audit might review this process and provide formal evidence of their concurrence. It should not be overlooked, however, that the prime responsibility for authorising systems and procedures rests with management rather than with the auditors.

(ii) Relations with other Internal Auditors

3.7   The initial feasibility study and concluding implementa- tion review will involve liaison between all the internal auditors concerned. The result of the feasibility study will affect forward plans for the Audit Sections and therefore will require close co-operation in assessing the impact of proposed new ADP systems. This assessment will be reflected in such matters as staffing requirements and related skills for both the ADP and non-ADP elements of the audit organisation.

3.8   The concluding implementation review will mark the transition of a system from the development stage to the category of a continuing or production system. At this point the ADP auditors should have completed the preparation of a manual on how to audit the particular system. The techniques included in the manual should be tailored according to the complexity of the new system but they should be designed for use by any internal auditor. A manual of this kind represents a considerable invest- ment of skilled audit resources and should be reviewed and accepted by all internal auditors.

Technical Services Audit and Audit Research and Development

3.9   This type of audit is much less clearly delineated and is likely to involve closer and more informal contact between ADP

and ADP audit. It is unlikely that review points will be frequently identified but critical stages will be:

. decisions to adopt new software techniques of a major nature;

. decisions to implement these in the production environment;

. organisation proposals of a major nature;

. adoption of major training programs.   '

3.10   The results of the work of ADP audit specialists in respect of research and technical services will often be of great interest to the internal audit unit as a whole. Although much of the work will be of a highly technical kind, auditors with basic ADP skills should be able to review some aspects.

Audit of Continuing Systems

3.11   As indicated in Chapter 2 the nature and degree of ADP audit specialist involvement in this type of audit will depend (inter alia) upon the extent to which procedures for auditing the system have been documented in audit manuals and the extent to which auditability has been designed into the system. In some circumstances there would need to be extensive contact with all groups. It is difficult to see how this could be covered by formal methodologies as each system will possess individual characteristics. Certain techniques such as the use of GASP (Generalised Audit Software Packages) could however be standard- ised.

Arrangements to Cover Decentralised ADP

3.12   Some aspects of decentralisation of the ADP function will influence the organisation of the ADP audit group. The types of decentralisation considered most relevant are:

. remote installations operating independently of each other, i.e. different versions of software or varia- tions in application systems programs;

. physical dispersal of design, coding and operational functions;

. networking of terminals and job entry stations;

. distributed processing networks.

3.13   These categories are not mutually exclusive. The implications for audit organisations will be influenced by the

physical location of the ADP audit group and the viability of small teams should it also be dispersed. Other factors include:

- the location of user, operational and design documentation;

- the difficulties in obtaining hard copy audit trails or source documents when these are separate from the processing site;

- the methods of distribution and verification for copies of application or system software at remote sites.

3.14   These factors point to the possibility that, depending on the size and complexity of the ADP network, ADP audit functions may need to be dispersed to some extent according to the physical siting of the various ADP components. It is also possible that, in some circumstances, one ADP specialist group may be unable to cover all aspects of the ADP audit. In that event it may be necessary to provide a higher level of training for internal auditors at remote locations.

3.15   Finally, it is worth reiterating that, especially in circumstances where there is an overall shortage of ADP audit specialists, maximum use should be made of audit teams composed of specialist and non-specialist personnel. This should not only assist other internal audit personnel to gain more ADP knowledge by working in close association with ADP auditors but should also result in a wider audit coverage of the organisation's ADP systems and help to ensure that the services of skilled ADP auditors are used to the best advantage.

4. THE SKILLS REQUIRED FOR ADP AUDITING

4.1   As audit reviews of data processing systems do not differ in principle from audit reviews of manual systems, ADP auditors need to have a solid foundation in the concepts and practices of management and auditing. However, they also require a knowledge of the fundamentals of data processing together with (in varying degrees) knowledge and experience of computer operations and techniques. In the light of the foregoing review of ADP audit tasks an attempt is made in this Chapter to provide some assessment of the skills and experience which ADP auditors are likely to require.

4.2   One of the leading authorities on ADP auditing[4] argues that the ideal ADP auditor should possess, in equal parts,

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4 Faim Technical Library : 'Auditing Computer Systems' - Section 3
   (William E. Perry)   78

auditing knowledge and ADP knowledge and that his expert knowledge of these two areas should be supported (in equal parts) by knowledge of the organisation, by audit instinct (in the sense of ability to isolate problems quickly) and by an ability to work effectively with other individuals or areas in the organisation. This authority also argues that the ideal ADP auditor should have had 3 - 5 years of on-the-job auditing experience and should have worked as an ADP programmer for a minimum of two years and had another 1 - 3 years of systems experience.

4.3   In practice, such a combination of skills and experience is rarely found in any one individual. Moreover, as few individuals have had equal knowledge and experience of both auditing and ADP, the question frequently arises as to which of these two disciplines is likely to produce the best ADP auditor. The answer to this question will depend on the circumstances in individual cases - including the nature of the auditing needs of the organisation. It is worth noting, however, that each of these disciplines offers certain useful qualities so far as ADP auditing is concerned. The main advantages of an auditing vis-a-vis an ADP background are listed as follows in the publication 'Auditing Computer Systems':

Auditing Background	ADP Background
1. Understands auditing.	1. Understands ADP.
2. Usually knows organisation's policies and procedures.	2. Knows ADP department's policies and procedures.
3. Is trained to look at controls.	3. Is trained to look at ADP problems.
4. Understands the audit function.	4. Understands the ADP function.
5. Is trained to verify an operation by testing.	5. Knows how to test a computer system.
6. Understands the total system.	6. Can easily participate in an ADP systems design team.

4.4   Drawing on the same source,[5] the ADP or auditing skills which need to be acquired by personnel with an auditing or ADP background respectively who aspire to become fully qualified ADP auditors are given in Attachment C.

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5 This material is drawn from Section 3 of the publication
   'Auditing Computer Systems'.

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4.5   It will be noted that, for those with an auditing background, the requisite ADP skills are listed (and graded) as follows:

ADP Skill Level

1. ADP terminology and concepts
2. Basic systems concepts
3. Flowcharting
4. Computer system work flow
5. Programming
6. Program Testing
7. Comprehension of computer operations
8. Understand detail system design principles.

4.6   The Board's CICA courses 1 and 2 provide trainees with some basic knowledge in areas such as those referred to in Items 1 - 4 while the Board's more advanced course currently being planned should help to provide some of the remaining skills listed above. Especially in relation to Items 6 - 8, however, development of the requisite skills would also require on-the-job training.

4.7   For those with an ADP background the auditing skills which need to be acquired are listed in Attachment C as follows:

Auditing Skill Level

1. Accounting concepts and terminology
2. Auditing concepts and terminology
3. Knowledge of auditing standards
4. General statistics
5. Interviewing skills
6. Concepts of acceptable audit evidence
7. Understanding principles of management
8. Forms design
9. Paperwork system flow.

4.8   In view of the current shortage of experienced ADP audit personnel it is inevitable that, in many cases, organisations which are seeking highly qualified ADP auditors will nevertheless need to rely on personnel whose real expertise lies in one rather than in both areas of auditing and ADP. In that event, the

organisation may need to be satisfied with a less-than-optimum standard of ADP auditing until such time as the personnel concerned achieve the degree of expertise required in both areas.[6] However, in some circumstances - for example, if the ADP audit unit is large enough - an organisation may be in a position to minimise the problem by selecting some ADP audit personnel with an audit background and others with an ADP background. Indeed, by recruiting personnel on this basis it may be possible to build up highly efficient audit teams. In some circumstances - especially in the short-term - it may be possible to meet such problems by the hiring of consultants or by the temporary use of other personnel who have relevant skills of a kind not yet developed by the organisation's internal auditors.

4.9   In practice the degree of ADP auditing skills required by an organisation will depend on the nature of its ADP auditing needs and problems from time to time. These, in turn, will depend mainly (though not wholly) on:

(a) the degree of complexity of its computer systems; and

(b) the stage which has been reached in the life-cycle of its computer systems.

4.10   With regard to (a) Attachment B contains an outline for planning purposes of the nature of the skills required to undertake ADP audits through rising levels of complexity. It will be noted that these skills are regarded as falling into three broad categories namely:

(i)   a basic skill level reflecting a basic knowledge of ADP systems and ADP auditing of the kind provided by CICA courses 1 and 2;

(ii) three intermediate skill levels which imply computing skills similar to those expected of personnel in the Computer Systems Officer structure; and

(iii) a highest skill level which reflects not only ADP expertise as such but also ability to direct and conduct virtually any aspect of ADP auditing.

4.11   It should be emphasised that the foregoing classification does not purport to indicate the gradings or salary

6   Some authorities maintain that, in these circumstances, the organisation can expect a two-year delay before the personnel with 'unbalanced' skills will become fully-effective ADP auditors.

classifications which might be appropriate for various classes
of ADP auditors; for that purpose various other factors would
also need to be taken into account. For ease of exposition,
the material in the Attachment is couched in terms of the
skills which _auditors_ (rather than ADP personnel) require.
Nor is any attempt made in this Attachment to spell out the
ancillary skills - such as those described in paragraph 4.2 -
which ADP auditors may need to possess.

4.12 With regard to (b) it was emphasised in earlier chapters
that internal audit is vitally interested in the complete life
cycle of computer systems and that this involvement will
require different skills according to the stage of development
or implementation reached. Not only will particular application
systems undergo metamorphosis but the hardware, software and
operational environments will also be subject to change. For
example, a particular system may undergo a transition from the
system development stage to the review phase involved in the
audit of continuing systems. Likewise some of the matters
covered in computer centre audits would have been reviewed
previously at the acquisition or technical services phases. In
short there may be significant changes in the type of ADP audit-
ing personnel and skills required at various stages.

4.13 Some of the main points in the foregoing analysis of ADP
audit tasks and ADP audit skills are brought together in the
Table below (Figure 4). This Table also provides some indication
of the differences in the nature of the ADP auditing skills
likely to be required at the three main phases of the life cycle
of ADP systems - namely, the feasibility and acquisition phase,
the development and implementation phase, and finally the
continuing production stage.

4.14 The gradings set out in Figure 4 are necessarily arbitrary
and may not be a reliable guide in particular circumstances but
the broad picture presented is of interest. It suggests that, if
audit personnel are to engage in any form of ADP auditing, they
should possess (as a minimum) ADP audit knowledge equivalent to
that gained from attending the Board's CICA courses 1 and 2.
Experienced auditors equipped with this basic knowledge should be
able not only to carry out current auditing of the simpler ADP
systems but also to help (for example, as members of audit teams)
with more specialised work and provide audit advice on less
technical aspects of matters arising at other stages of the ADP
system life cycle.

4.15 The Table also illustrates the important points that ADP
knowledge and experience of a much higher order would be
necessary for a wide range of the ADP auditing tasks described
earlier in this Paper and that the nature of the expertise
required may be different at various stages of the systems life

cycle. It will be noted that ADP auditing tasks which are
likely to require computer and auditing knowledge of an
advanced kind include the design of auditability into systems
and the auditing of more advanced systems and computer centres.
In some organisations the provision of adequate auditing
services may also require advanced research into ADP audit
techniques and knowledge of the latest ADP developments.

FIGURE 4

ADP AUDITING SKILLS AND TASKS MATRIX

Level of Skills Required (7)	ADP Auditing Tasks		
	Phase 1. Feasibility and Acquisition	Phase 2. Development and Implementation	Phase 3. Continuing Production
(i) Basic Level	Audit of proposals and procedures not requiring detailed ADP knowledge.	Auditing of aspects not requiring detailed ADP knowledge.	Audit of simpler ADP systems. Participate and assist in other ADP audits.
(ii) Intermediate Levels	More technical aspects of feasibility and acquisition matters. ADP audit research relevant to feasibility and acquisition.	Preparation of ADP audit manuals. Provision of technical services. ADP audit research relevant to development and implementation. Design of auditability into systems.	Audit tasks involving use of computer. Audit of more advanced systems. Computer centre audit. Planning and control of complex audits.
(iii) Highest Level	Planning, control and conduct of any aspect of ADP auditing relevant to the organisation.		

(7) Further details of the skills required are given
in paragraph 4.10 and in Attachment B.

5. THE ORGANISATION OF ADP AUDIT SERVICES

5.1   It is a matter for each department or authority to judge what ADP audit services it needs and how these services might best be obtained and organised. For reasons given in the preceding chapter substantial differences can be expected, as between departments, in the nature of the ADP auditing services they require and there may also be variations, within individual organisations, in the kind of ADP auditing services they need from time to time. Substantial differences can therefore be expected in the manner in which individual departments and authorities decide to organise themselves in relation to ADP auditing and in many cases, individual organisations may also find it wise to vary their arrangements from time to time in the light of changing circumstances.

5.2   Thus some organisations may decide that they need to have a fully-fledged and highly specialised ADP audit unit which would carry out the full range of ADP audit functions described in this Paper whereas other organisations may decide that such ADP auditing as they require can be met adequately within their existing internal audit establishments. Some organisations, on the other hand, may feel that some ADP auditing services they require - for example, the more specialised ADP audit tasks - cannot be carried out by their own personnel and that arrangements need to be made for securing the services of consultants or for other forms of assistance. Clearly, there is a very wide range of possible arrangements.

5.3   Four alternative models are set out in Attachment D to illustrate some of the ways in which internal ADP auditing might be organised. These particular models should not be regarded as having been endorsed in any way by the Board; much of the material in these illustrations has been drawn from overseas examples.

5.4   The first model illustrates the type of large ADP audit group which would need to be established by an organisation with large-scale and complex computer systems which it wishes to be subject to the complete range of ADP auditing.

5.5   The second model is based on the same assumptions concerning the size and complexity of the ADP systems and of the services to be provided but it assumes that some of the control or review functions (including security) are carried out within the ADP organisation itself rather than as part of the internal audit function. A smaller ADP audit group is therefore envisaged in this model.

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5.6   The third model illustrates the situation of an organisation which has a medium-scale computer system and which sets up a small audit group consisting of (say) 3 - 5 specialists. It is assumed that such a group would not be required to carry out the full range of ADP audit services canvassed earlier in this Paper.

5.7   The fourth model relates to a situation where an organisation uses small-scale computers or bureaux facilities and where it might not be viable to set up a separate ADP audit group. In the attached illustration it is suggested that such an organisation might need to rely more extensively on controls in the ADP area itself and enlist some ADP auditing support from outside its own establishment.

5.8   These four models illustrate only a few of the ways in which internal ADP auditing might be organised. In practice much will depend on such factors as the availability of specialist staff, the speed with which ADP auditing personnel can be trained, the degree to which departments succeed in establishing well-balanced audit teams, and the extent to which relevant services may be available on suitable terms from outside an organisation's own internal audit establishment.

5.9   In this connection it should be noted that in PSB Circular 1980/7 relating to ADP auditing the Board suggested that the following avenues might be explored by departments and authorities to meet the current shortage of ADP specialists:

'.   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.'

5.10   In its recent discussion paper on Internal Audit in the Public Service the Joint Committee of Public Accounts made

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certain recommendations relating to the establishment of an Internal Audit Consultancy Bureau and the provision of advice to departments by the Auditor-General as to the auditability of proposed ADP systems. It is expected that these recommendations will be dealt with in a formal Finance Minute.

5.11   Various other avenues of 'external' support might also be worth exploring by organisations faced with a shortage of skilled ADP auditors within their own ranks. Under the Board's Interchange Program, for example, it might be possible to secure for a period the services of some people with relevant skills from the private sector.[8]

5.12   To sum up, there is no single or simple answer to the question of how ADP audit services can best be organised. In this Paper most attention has been given to arrangements which would require the organisation concerned to establish special ADP audit groups or take other steps to build up the ADP auditing expertise of their internal audit units. At least in the shorter term, it will not be easy to develop such arrangements. Difficulties to overcome may relate to such matters as the establishment of appropriate organisational structures for the short and long term, the shortage of personnel with the requisite skills, and limitations on the extent to which relatively small internal audit units can make efficient use of highly skilled personnel.

5.13   Reference has been made also to the possibility of arrangements involving the use of consultants and of other resources outside the normal internal audit establishments of the organisations concerned. Here again, however, certain difficulties will need to be overcome. Especially in view of the acute overall shortage of ADP audit specialists it seems fair to conclude that at least some of the organisations requiring the services of such specialists will find that there is no early solution to the problem and that, in the meantime, a variety of actions - both within and outside their organisations - may need to be taken if they are to secure adequate ADP auditing services within a reasonable period.

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8.   The Interchange Program might also be used to provide selected APS personnel with useful experience in the private sector. This possibility - along with other steps to develop the ADP auditing skills of APS personnel - is discussed in the next Chapter (see, in particular, paras 6.5 - 6.8)

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6. FORWARD PLANNING

6.1   It is clear from the foregoing survey that forward planning and systematic action will be necessary if organisations with an unsatisfied need for skilled ADP audit services are to satisfy their needs within a reasonable time.

6.2   Attention has been drawn in this survey to the main problems and difficulties which are likely to stand in the way. In particular, it has been pointed out that, in situations where the setting up of special ADP audit units would be desirable, there may well be problems in creating the requisite ADP Audit positions and very real problems in obtaining suitably skilled staff to fill the positions. There is a serious scarcity of skilled ADP auditors both in Australia and overseas. The provision of adequate training and the acquisition of staff takes much time and effort. Moreover, despite the present program to provide ADP audit training, the shortage of skilled ADP audit resources is unlikely to be overcome quickly - partly because a continued increase can be expected in the demand for trained personnel.

6.3   It is also clear from the foregoing survey of the nature of ADP auditing needs that, in many organisations, such auditing is unlikely to be fully effective unless ADP auditors are involved at appropriate stages of the system development cycle. In other words, the requisite ADP auditing expertise must be available at the right time. Indeed, in the case of the complex on-line ADP systems, it is virtually essential that auditability be built into such systems at the design stage and that the conventional 'snapshot' audit approach be replaced by a more continuing review of the current operations of the ADP system.

6.4   Accordingly, organisations with a current or prospective need for the more highly skilled ADP audit services would be wise to formulate ADP audit plans containing an assessment of the nature of their auditing needs in the foreseeable future and to draw up action programs setting out the steps which need to be taken to secure and organise the resources required to meet those needs. On the personnel side, such programs might need to include plans to identify and substantiate to the Board the staffing requirements for an ADP audit organisation appropriate to the department's auditing needs, plans to staff that establishment by a specified date, plans to train a more highly skilled staff, and (where appropriate) plans to obtain some services - such as those canvassed in paragraphs 5.9 to 5.11 - from sources outside the normal internal audit establishments of the organisations concerned.

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6.5   In drawing up such plans departments might find it useful to consult with the Public Service Board, the Auditor-General and/or the JIC/IDAC. It is hoped that this Paper will be useful in helping departments to identify the ADP auditing functions which they wish to carry out and in providing some guidance as to the kind of arrangements necessary to carry out those functions.

6.6   If an early solution is to be found to some of the main problems canvassed above, the provision of training in ADP auditing will need to proceed apace. As part of the ADP audit development program announced by the Board in April 1980 basic training courses in ADP auditing were instituted and about 250 internal auditors have already participated in these courses. A training course in advanced ADP auditing is commencing this month and it is envisaged that, in the first year, about 100 personnel will receive at least some advanced training under this scheme. The provision of training in ADP auditing is crucial to the success of the whole program and continued departmental support for the operation and development of the training courses will be essential.

6.7   In addition to these courses a number of other steps can be taken to develop ADP audit personnel. In-house training and experience, for example, is an essential adjunct to the courses; indeed, some authorities assert that several years of on-the-job experience is required for the development of fully qualified ADP auditors. In the case of organisations which already have some ADP audit specialists it may be possible to use them as a training cadre for less skilled personnel.

6.8   In cases where consultants are hired to carry out ADP audit projects which are beyond the capability of an organisation's own staff these projects should be used also as a means of providing Public Service staff with some experience and knowledge of such projects and of the methodologies employed.[9]

6.9   Use of the Board's Interchange Program might also be explored with a view to providing existing or prospective ADP audit staff with experience in the private sector and/or as a means of drawing experienced people from the private sector for a period of service in a department.

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9.   With these ends in view, the Public Service Board has recently commissioned consultants to carry out, in conjunction with Public Service personnel, ADP auditing projects of an advanced kind in two departments. The audit reports emanating from these pilot projects will remain the property of the departments concerned but the methodologies employed will be the subject of separate reports which will be available throughout the Service. The

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Recommended Approach

6.10   It is recommended that departments and authorities which need skilled ADP audit services and which have not already taken adequate steps to obtain them might develop an approach along the following lines:

(1)   formulate a clearly-defined departmental policy concerning the audit of ADP systems and services;

(2)   using Chapters 2 and 3 as a guide, identify the nature and extent of the ADP audit tasks to be undertaken within the foreseeable future;

(3)   assess the skills required to carry out those tasks (see Chapter 4) and the extent to which their present staff are unable to undertake the ADP audit functions envisaged;

(4)   using Chapter 5 as a guide, identify the kind of arrangements necessary to secure or organise the skilled ADP audit resources required to meet any deficiencies over the period in question, e.g:

(a)   development of a more appropriate staffing establishment; and/or

(b)   arrangements for some services to be provided from outside the organisation's own internal audit establishment (paragraphs 5.9 - 5.10);

(5)   in consultation with the relevant authorities formulate a strategic plan and action program to implement these arrangements within a specified period (Chapter 6); and

(6)   co-operate closely with the Board and the interdepartmental committees in providing basic and advanced training and in taking other steps required to develop ADP auditing knowledge and experience in the Service (paragraphs 6.6 - 6.9)

June 1981

Board would wish similar arrangements in respect of such matters as the use of APS personnel and the subsequent dissemination of technical information to apply to auditing projects commissioned by other APS organisations.

INTERNAL CONTROLS FOR COMPUTER-BASED SYSTEMS

LIST OF CONTROLS REFERRED TO IN PSB PERSONNEL MANAGEMENT MANUAL AND IN THE AUDIT PRACTICE MANUAL

Acquisition and Implementation Controls

I   To ensure that computer facilities and services are acquired only if they will contribute to the achievement of organisational goals and are likely to produce greater benefits than other processing alternatives.

II To ensure that the most suitable computer facilities and services are selected and that the selection process is performed in accordance with Service and organisational policies and practices.

IIA* To ensure that the implementation of Data Processing facilities and services is planned, controlled and evaluated against initial specifications.

Management and Organisational Controls

III To ensure the provision of effective organisational controls over the functions related to D.P.

IV   To ensure that management exercises effective control over deployment of D.P. resources in accordance with organisational objectives.

V   To ensure that the practices related to D.P. activities are in accordance with statutory requirements and Service-wide administration procedures.

VA* To ensure the formulation of, and adherence to, policies, standards and procedures for all functions related to D.P.

Physical Security Controls

VI   To reduce the likelihood of unauthorised access to D.P. assets.

VII To reduce the likelihood of environmental threats and hazards and to minimise the impact of such on D.P. processing.

Application System Controls

VIII To ensure that D.P. system development proposals are approved and implemented only if they are justifiable for economic or other sound reasons.

* not included in PSB list of controls.

Application System Controls (Cont'd)

IX   To ensure that systems are developed or modified in accordance with management approved plans and procedures.

X   To ensure that only tested and approved systems or modifications are taken into production libraries and that complete and accurate data files are established.

XI   To ensure that the continued effectiveness and efficiency of systems are monitored.

XII To ensure that statutory and other external constraints are incorporated in the development, implementation and modification of systems.

Operations Controls

XIII To ensure that computer facilities are properly used for management approved purposes and procedures exist to prevent or detect:

.   accidental errors;

.   fraudulent manipulation of data; and

.   misuse of classified information.

XIV To ensure that procedures are established which will reduce the likelihood of processing failures and, where failures do occur, enable complete and timely recovery.

XV   To ensure the efficient utilisation of computer resources.

Systems Software Controls

XVI To ensure that D.P. systems software proposals are approved only if they are economically justifiable or are mandatory for software compatibility and support.

XVII To ensure that systems software is developed, modified or configured in accordance with management approved plans and procedures.

XVIII To ensure that only tested and approved systems software or modifications are completely and accurately taken into production.

XIX To ensure that the continued effectiveness and efficiency of systems software is monitored.

XX   To ensure that statutory and other external constraints are incorporated in the development, implementation and modification of systems software.

Processing Controls

XXI   To ensure the completeness of data processed by the computer.

XXII To ensure the accuracy of all data processed by the computer.

XXIII To ensure that all data processed by the computer is valid
      and authorised.

XXIV To ensure the completeness and confidentiality of the
      distribution of computer generated output.

XXV   To ensure that data is processed efficiently.

Data Integrity Controls

XXVI To ensure the completeness, accuracy and validity of computer
      data and that these files are protected from unauthorised use.

XXVII To ensure that data is stored and described in an efficient
      and effective manner and is continuously available to authorised
      users.

Communications Controls

XXVIII To ensure the completeness, accuracy and validity of data
       transmitted within the data communication network and to
       prevent information being compromised or misused.

XXIX To ensure the effective, efficient and continuous operation of
      the communication network.

External Service Bureaux Controls

XXX   To ensure that external bureau computer facilities and services
      are used only if they are likely to produce greater benefits
      than other processing alternatives.

XXXI To ensure that the most suitable external bureau computer
      facilities and services are selected and that the selection
      process is performed in accordance with Service and organisa-
      tional policies and practices.

XXXII To ensure the completeness, accuracy and validity of data
      processed by external service bureaux and that programs and
      data is protected from unauthorised use.

SKILLS REQUIRED FOR ADP AUDITING

NOTES: 1. This is a planning document. Its purpose is to
          illustrate present expectations as to the nature
          of the skills which internal auditors will need
          to develop in order to undertake ADP audits
          through increasing levels of complexity.

       2. At each level there will be a need to employ
          computing, auditing and management skills. As a
          general, but not definitive, guide the nature of:

          (a) computing skills required in the mid to
              highest levels will be similar to those
              expected of officers entering the
              Computer Systems Officer structure.

          (b) auditing skills will be similar to those
              expected of officers at the various
              levels of internal audit positions.
              Experience in systems based audit method-
              ology will be essential.

Basic Level

Basic knowledge of ADP systems and ADP auditing of the
kind provided by CICA courses 1 and 2.

Intermediate Level 1 (IL.1)

- knowledge of the organisation's overall ADP activities

- theoretical knowledge of most ADP audit approaches

- ability to determine the circumstances under which the
  above approaches should be adopted

- ability to implement some of the basic ADP audit
  approaches.

Intermediate Level 2 (IL.2)

- ability to control submission of audit runs/jobs to
  computer using:

  . utility programs
  . software packages
  . generalised audit software packages (GASPS)

- thorough knowledge of ADP activities within the
  organisation

- understand computing techniques (programming,
  language, job control language) used by the
  organisation.

Intermediate Level 3 (IL.3)

- skill and experience in programming or in systems analysis

- ability to appreciate and exploit the characteristics of the system software/data management techniques within the organisation (e.g., designing auditability at the system development stage)

- ability to plan and conduct audits of advanced systems.

Highest Level

Ability to direct and conduct any aspect of ADP audit and to appreciate and advise on the implications of new ADP developments.

THE ACQUISITION OF ADP AUDIT SKILLS

The material in the Table below - which has been reproduced from the Faim Technical Library publication 'Auditing Computer Systems' is designed to illustrate:

A. The ADP skills which need to be acquired for ADP auditing by personnel with an auditing background; and

B. The auditing skills which need to be acquired by personnel with an ADP background.

A. Assuming an Auditing Background		B. Assuming an ADP Background	
ADP Skill Level	ADP Skills Required	Auditing Skill Level	Auditing Skills Required
1	ADP terminology and concepts	1	Accounting concepts and terminology
2	Basic systems concepts	2	Auditing concepts and terminology
3	Flowcharting	3	Knowledge of auditing standards
4	Computer system work flow	4	General statistics
5	Programming	5	Interviewing skills
6	Program Testing	6	Concepts of acceptable audit evidence
7	Comprehension of computer operations	7	Understanding principles of managements
8	Understand detail system design principles	8	Forms design
		9	Paperwork system flow

Note: The authors estimate that (in the U.S. environment) each of the two sets of skills listed above would take about six months to acquire by way of a combination of external courses, self-help and on-the-job training. The authors also estimate that:
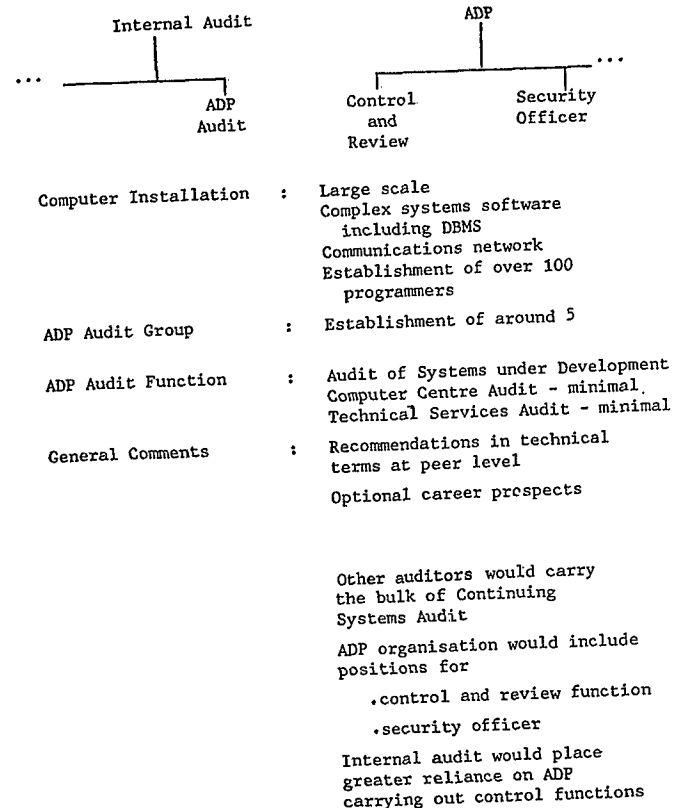
A. To become proficient as a programmer requires approximately two years' experience, and as a systems analyst approximately five years' experience.

B. To become proficient as an auditor requires two to three years' on-the-job training experience.
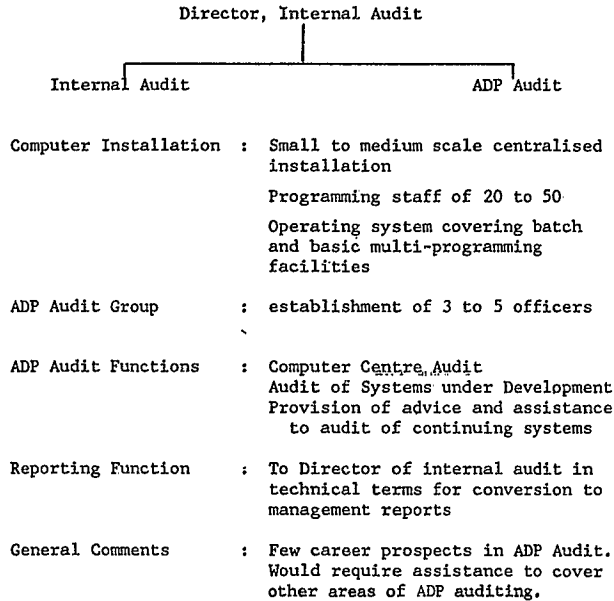
ADP AUDIT - ORGANISATION MODELS
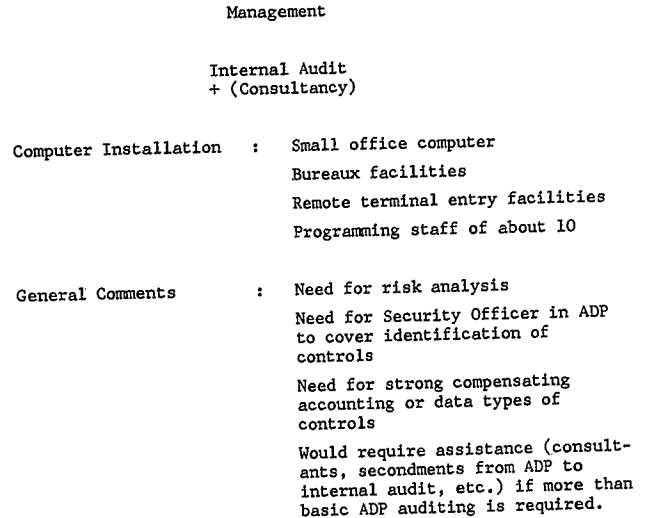
Model 1 - Large ADP Audit Group - variation 1

```
                    Director, Internal Audit
                              |
...  ------------------------------------------
                |                            |
           Internal                   ADP Audit Manager
        Audit Manager                        |
                                             |
                              --------------------------------
                              |              |               |
                          Computer        Systems        Technical
                           Centre         Develop-          and
                                           ment           Research
```

Computer Installation	:	Large scale Complex systems software including DBMS Communications network Establishment of over 100 programmers
ADP Audit Group	:	Establishment of around 10
ADP Audit Functions	:	Computer Centre Audit Audit of Systems and Development Technical Services Audit Involvement in Acquisition proposals Assistance in Continuing Systems Audit
Reporting Function	:	In non-technical terms including assessment of possible impact of weaknesses
General Comment	:	Career prospects within ADP audit Sufficient resources to provide service for

.   consultancy support to other
    departments using similar
    hardware and software

.   third party audit

Other auditors would carry the
bulk of Continuing Systems Audit

Model 2 - Large ADP Audit Group - variation 2

```
    Internal Audit                         ADP
          |                                 |
...  ----------                ----------------------------- ...
          |                          |                |
         ADP                     Control          Security
        Audit                      and            Officer
                                 Review
```

Computer Installation	:	Large scale Complex systems software including DBMS Communications network Establishment of over 100 programmers
ADP Audit Group	:	Establishment of around 5
ADP Audit Function	:	Audit of Systems under Development Computer Centre Audit - minimal. Technical Services Audit - minimal
General Comments	:	Recommendations in technical terms at peer level

Optional career prospects

Other auditors would carry
the bulk of Continuing
Systems Audit

ADP organisation would include
positions for

    .control and review function

    .security officer

Internal audit would place
greater reliance on ADP
carrying out control functions

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Model 3 - Small ADP Audit Group

Director, Internal Audit

Internal Audit   ADP Audit

Computer Installation   : Small to medium scale centralised
                            installation

                            Programming staff of 20 to 50

                            Operating system covering batch
                            and basic multi-programming
                            facilities

ADP Audit Group   : establishment of 3 to 5 officers

ADP Audit Functions   : Computer Centre Audit
                            Audit of Systems under Development
                            Provision of advice and assistance
                              to audit of continuing systems

Reporting Function   : To Director of internal audit in
                            technical terms for conversion to
                            management reports

General Comments   : Few career prospects in ADP Audit.
                            Would require assistance to cover
                            other areas of ADP auditing.

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Model 4 - No ADP Audit Group

Management

Internal Audit
+ (Consultancy)

Computer Installation   : Small office computer

                            Bureaux facilities

                            Remote terminal entry facilities

                            Programming staff of about 10

General Comments   : Need for risk analysis

                            Need for Security Officer in ADP
                            to cover identification of
                            controls

                            Need for strong compensating
                            accounting or data types of
                            controls

                            Would require assistance (consult-
                            ants, secondments from ADP to
                            internal audit, etc.) if more than
                            basic ADP auditing is required.

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KEY PSB AND IDAC DOCUMENTS ON INTERNAL AUDIT

Issued	Document	Reproduced at:	
		184th Report	Finance Minute
Sept 1977	Efficiency Review of Internal Audit: 1977 Summary of Major Recommendations Made By the Consultants - Coopers & Lybrand Services	App A	
Apr 1979	PSB Circular 1979/8. Internal Audit In the Australian Public Service	App B	
June 1979	PSB Memorandum 79/2120. Internal Audit In the APS - Education Program	App C	
Nov 1979	IDAC Paper 9. Viability of Small Internal Audit Units		Att F
Mar 1980	IDAC Paper 15. Audit Committees		Att E
Apr 1980	PSB Circular 1980/7. Internal Audit of ADP Systems and Services in the APS	App D	
Apr 1980	PSB Memorandum 79/3667. Internal Audit of ADP Systems and Services: Training Program	App E	
Dec 1980	IDAC Paper 17. Independence and Internal Audit In the APS	App H	
Dec 1980	IDAC Paper 25. Quality Assurance For Internal Audit	App I	
May 1981	Glossary for Internal Audit*		

May 1981	IDAC Paper 35. Internal Audit In the APS - Responses to JIC Questionnaire of December 1980*		
June 1981	IDAC Paper 31. The Development of Departmental Arrangements for ADP Auditing		Att B
Oct 1981	An Internal Audit Consultancy Bureau		Att H
Dec 1981	Contracting-Out of Internal Audit Services		Att G
Apr 1982	IDAC Paper 42. Working Papers for Internal Audit*		
May 1982	IDAC Paper 47. 1981 Survey of Internal Audit in the APS*		
June 1982	IDAC Paper 50. Methodology Report on an ADP Audit in the Department of the Capital Territory*		
June 1982	IDAC Paper 51. Metholodology Report on an ADP Audit in the Department of Health*		
July 1982	Strategy for Development of ADP Audit Training*		
Oct 1982	IDAC Paper 46. Planning for Internal Audit*		
Oct 1982	IDAC Paper 53. Role and Scope of Internal Audit		Att A

Oct 1982   IDAC Paper 54. Index of ADP Audit
            Material*

May 1983   IDAC Paper 61. Survey of Internal Audit
            in the APS   Att D

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* Available from the Public Service Board, Canberra.

SURVEY OF INTERNAL AUDIT IN THE
AUSTRALIAN PUBLIC SERVICE

Interdepartmental Advisory Committee on
Internal Audit
May 1983

SURVEY OF INTERNAL AUDIT IN THE AUSTRALIAN PUBLIC SERVICE

FOREWORD AND SUMMARY

This survey of internal audit in the Service covers developments to the end of November 1982.

2. It is the third annual survey carried out by the Joint Implementation Committee and IDAC. As in previous years it is based largely on information derived from a questionnaire sent to all organisations staffed under the Public Service Act. A copy of that questionnaire is at Appendix A. The facts and figures derived from the questionnaire are assembled in a series of tables and this tabular material is interpreted and discussed in the covering text. Responses to the questionnaire were endorsed by senior management in each of the organisations surveyed. Additional information relating to the education and training program, compiled from the records of the Public Service Board's Implementation Unit, is set out in Table No. 7 and in the Appendices.

3. The salient points in the survey may be summed up as follows;

(i) Virtually all major Public Service organisations are now utilising internal audit services. In November 1982 there were 32 internal audit units in operation.

(ii) Although the total number of internal auditors (620) did not vary greatly in 1982 there was a high turnover rate and some significant changes in the composition and quality of the internal audit work-force especially in certain areas.

(iii) There was a further strengthening in 1982 of the capabilities of the internal audit work-force. This reflected:

. Further action to review and upgrade audit establishments. Most internal audit positions have now been upgraded and a number of new specialist positions - relating mainly to ADP auditing - were established in 1982. Six Chief Internal Auditors occupy Second Division positions; the remainder are clustered around the top of the Third Division.

. Since 1979 over 1150 staff have been trained in systems-based auditing and some 475 have attended courses in basic ADP auditing. After allowing for staff turnover this means that over 80% of the current work-force has received training in audit methodology and nearly half (as compared with 25% in 1980) have had basic training in ADP auditing.

(iv) In general, internal auditing is now well organised and receiving the support it requires from senior management in each organisation. Thus:

all organisations operate under charters;

. audit units are independent of line management and all Chief Internal Auditors have the right of direct access to the Permanent Heads of their organisations;

. strategic, annual and project planning techniques have been introduced;

. quality assurance techniques have been widely adopted as a means of maintaining high audit standards.

(v) there was a further increase in 1982 in the range and diversity of internal audit activities. All audit units still carried out some audits of financial and accounting matters but most units - including all the larger ones - devoted more attention to their organisation's operations and services and to evaluating their administrative and management systems. Many audits continued to be solely concerned with integrity and compliance aspects but increasing emphasis is also being placed on other audit objectives such as the economy, efficiency or effectiveness of the activities under review.

(vi) All of the larger units carried out ADP auditing in 1982. Particular attention was given to the design and auditability of new computer systems. About 50 positions are now dedicated to ADP auditing and all relevant organisations are participating in the Board's advanced ADP audit training program. Some organisations expect to achieve an adequate ADP audit capability before the end of 1983 but most of them do not expect to achieve this target completely before 1984/85.

(vii) Virtually all departments considered they received value for money from their internal audit services in 1982. For the Service as a whole only 4% of audit recommendations were rejected. The major audit units reported reasonable correlation in 1982 between their audit plans and audit performance but some of the others were not completely satisfied with the progress or standard of performance achieved to date.

4. In the light of this survey IDAC concluded that:

. In 1982 - as in 1981 - further significant progress was made in developing internal auditing in the Service and the survey gives an encouraging picture of the value which organisations themselves place on the internal audit function.

. Nevertheless, audit performance is not yet at the optimum. This is not surprising given the far-reaching changes that have taken place and the extensive restaffing that has occurred. Further on-the-job experience to reinforce the formal training, especially in the newer fields of audit coverage, will be necessary before optimum performance is achieved.

- Some individual organisations are making more limited progress. In explaining this situation the factor most frequently cited by organisations was the lack of adequate staff or their inability to recruit suitably-trained personnel. The Committee noted that the smaller audit units are more likely to experience problems of this kind.

- Expansion of the horizons of internal auditing to cover the full spectrum of departmental activities and to cope with the problems of the computer age will continue to present challenges which will call for a diversity of skills, experience and auditing techniques on the part of internal auditors. The most immediate challenge is in respect of ADP auditing; in this area a continuation of the present training efforts is clearly necessary.

F.C. Pryor
Chairman
Interdepartmental Advisory Committee
  on Internal Audit
Public Service Board
CANBERRA ACT
May 1983

INTERNAL AUDIT IN THE AUSTRALIAN PUBLC SERVICE

CONTENTS

SURVEY OF INTERNAL AUDIT IN THE AUSTRALIAN PUBLIC SERVICE

LIST OF TABLES

SURVEY OF INTERNAL AUDIT IN THE AUSTRALIAN PUBLIC SERVICE

A. STAFFING AND TRAINING

In 1982 internal audit units were operating in almost all of the major departments and authorities in the Australian Public Service. [1] At the end of November 1982 there were 32 such units or two less than in 1981; the reduction reflects departmental changes and amalgamations in the course of 1982. [2]

2.   For the purposes of this survey these 32 internal audit units are classified into four categories. As indicated in Table No. 1 there are wide disparities in the size of the audit units. It will be noted, for example, that the six largest units employ nearly two-thirds of the internal audit work-force while less that 10% are employed by the 16 smaller units. The key figures are: (see also Figure 1):

Classes of Internal Audit Units

Classification		Number of Units	Staff as at 30.11.1982	
			No.	% of total
Large	(over 25)	6	403	65%
Medium	(10 - 25)	10	161	26%
Small	(4 - 10)	7	41	7%
Very Small	(under 4)	9	15	2%
		32	620	100%

1   One major Department - the Treasury - relies on internal audit services provided by the Department of Finance.

2   The main changes in 1982 were the abolition of the Department of Business and Consumer Affairs and the Department of Industrial Relations, the creation of the Department of Defence Support, and the setting up of a combined audit unit to serve both the Department of Veterans' Affairs and the Defence Service Homes Corporation. This survey does not, of course, take account of departmental changes which have occurred since the end of 1982.

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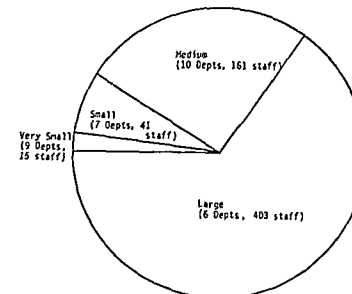
Figure 1 : Proportion of Total Audit Staff x Classification of Audit Unit

3.   In 1982 there was some increase in the number of internal audit positions but the actual size of the work-force (i.e. the number of positions filled) was virtually unchanged. The aggregate figures in recent years were:

	Establishment	Actual
December 1980	791	670
December 1981	747	625
November 1982	766	620

4.   As indicated in Tables No. 2 and 3, the increase of 19 in the number of positions in 1982 was distributed among ten audit units and there were minor reductions in the establishments of two organisations. The largest increase in establishments was in the Department of Finance (+ 4).

5.   Although there was little change in the total number of actual staff in 1982 there were significant increases in some audit units - principally Administrative Services (+ 8) and Health (+ 6). The main staff reductions occurred in the larger audit units - (e.g., Defence - 7 and Taxation - 5).

6.   The distribution of staff in 1981 and 1982 as between the four categories of internal audit units was:

	Establishment			Actual		
	1981	1982	Change	1981	1982	Change
Large Units	470	477	+ 7	418	403	-15
Medium Units	200	207	+ 7	156	161	+ 5
Small Units	57	61	+ 4	38	41	+ 3
Very Small Units	20	21	+ 1	13	15	+ 2
TOTAL	747	766	+ 19	625	620	- 5

7.   A comparison of establishment and actual staffing of each internal audit unit in 1982 is provided in Table No. 3. In total the number of positions occupied in 1982 represented 81% of establishment as compared with 84% in the previous year. For the most part, the larger audit units achieved a higher-than-average occupancy rate. Organisations well below establishment included the Departments of Defence Support, Education, Finance, Science and Technology, Communications, and Home Affairs and Environment.

8.   Several organisations reported that staff ceilings prevented them from completely filling their establishments. Some reported that it was difficult to recruit staff with the necessary qualifications and experience - especially in respect of ADP auditing. In most cases where organisations were well below establishment the shortfall was said to be due partly to recruitment delays arising from recent or impending staff reorganisations.

9.   Since the inauguration of the internal audit development program the establishments of virtually all of the internal audit units have been reorganised. This process of reviewing the adequacy of internal audit organisations continued in 1982 and in that year there were changes in the establishments of no less than twelve audit units. Many positions have been upgraded, some positions which did not meet modern audit requirements have been abolished while a number of new specialist positions - relating mainly to ADP auditing and audit research and development - have been created. Details of the location and salary classifications of internal audit staff as at 30 November 1982 are given in Tables No. 4 and 5.
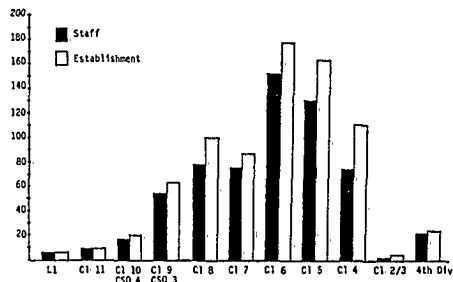
Figure 2 : Actual Staff and Establishment Numbers x Salary Classification

10.   Especially in these circumstances it is not surprising that turnover of internal audit staff continued at a relatively high level in 1982. Details are given in Table No. 2. As in the previous year there was a gross turnover rate of about one-third, with arrivals (214) slightly below departures (219). The turnover rate was much higher than this in the following organisations:

	No. of Departures	Turnover Rate %
Taxation Office	41	53
Social Security	40	46
Veterans' Affairs	24	41
Education	9	69
Defence Support	7	50
Administrative Services	7	44
Health	6	46
Foreign Affairs	6	43
Finance	5	100
Science and Technology	4	57
Home Affairs and Environment	3	150
Bureau of Statistics	2	50
Public Service Board	1	50
Industries Assistance Commission	1	100

11.   Much of the staff turnover in 1982 represented movements of auditors from one internal audit unit to another or to and from the Auditor-General's Office. As 80 of the total 'arrivals' were previously engaged in auditing activities, the number of new arrivals in 1982 without immediately prior audit experience (134) represented only about one-fifth - rather than one-third - of the total internal audit work-force. Table No. 2 also indicates that the gain of 80 personnel with immediately prior audit experience was accompanied by a loss of 44 personnel to other APS audit areas.[3] This level of mobility in the audit work-force has been facilitated by the essentially common audit standards, methodologies and training now applicable throughout the Service.

Qualifications and Training

12.   Information concerning qualifications and training of internal auditors is provided in Tables No. 6 and 7. Table 6 reflects data provided by the respondents to the survey and contains information relating to the APS internal audit work-force as at November 1982. Table No. 7 reflects the totality of training delivered through the education and training program since its inception in 1979 - with separate figures for the survey period and the subsequent period to 31 March 1983.

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3   The apparent net gain of 36 mainly reflects a net movement of audit staff from the Auditor-General's Office to the internal audit work-force.

13. In comparing the data in the two tables it should be noted that, particularly over the last two years, the training has been available to some staff outside the internal audit work-force. A number of places in the basic audit and ADP audit courses have been taken up by APS staff in closely related work areas such as departmental inspection groups and by internal auditors in Commonwealth statutory authorities and in State public services. Departmental ADP staff have been encouraged to take up places in the advanced ADP audit courses to develop their awareness of control and auditability requirements in the design and delivery of ADP systems and services; exposure to ADP auditing will also help to broaden their career opportunities. In interpreting the data it should also be borne in mind that many personnel trained in earlier years are not now in the internal audit work-force.

14. Table No. 6 indicates that of the APS internal audit work-force of 620, 32% held degreees, 15% held diplomas and that 23% were currently attending tertiary courses. In relation to basic training, 524 or 85% (86% in 1981) had attended the general systems-based audit course (now renamed the Internal Audit Practitioners' Course) and 293 or 47% (25% in 1980 and 40% in 1981) had attended the two-week basic ADP audit course.
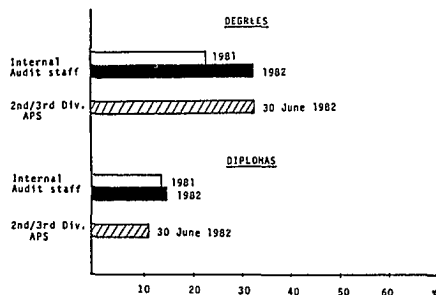
Figure 3 : Proportion of Staff Holding Degrees or Diplomas
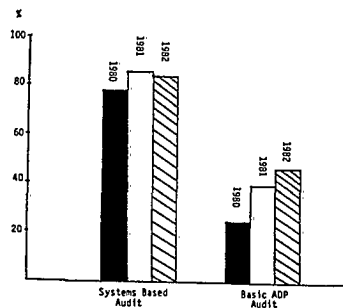
Figure 4 : Percentage of Staff Trained

15. Table No. 7 discloses that there have been 3,130 participants in the range of 24 briefings, courses, workshops, etc., which have been available through the education and training program to March 1983. The 13 new courses and workshops on advanced ADP auditing which have been made available progressively since January 1982 attracted 277 participants during the survey period with a further 128 participants during the subsequent period to March 1983.

16. Details of the training program for the period January to June 1983 including a synopsis of each course offered are given in Appendix B.

B. NATURE OF INTERNAL AUDIT ACTIVITIES

17. Details of the subject-matters, purposes and size of the internal audits carried out in 1982 are provided in Tables No. 9 to 11. With regard to the subject-matters of internal audits, organisations were asked to give some indication of the extent to which their audits were concerned with four classes of subjects, namely financial and accounting, administration and management, operations and services, and ADP systems and services. [4] The responses by the 31 audit units which carried out internal auditing in 1982 may be summarised as follows:

(i) Financial and Accounting: All audit units engaged in some auditing of financial and accounting matters. Eighteen units devoted less than 25% of their time to such subjects in this area. None of the larger organisations were among the 13 units which devoted more than 25% of their time to financial and accounting matters.

(ii) Administration and Management: Sixteen respondents devoted more than 25% of their time to audits relating to administration and management. Three units carried out no auditing in this area while the remaining 12 - including the four largest units - devoted some time (less than 25%) to audits in this area.

(iii) Operations and Services: Subjects in this category appear to have received most internal audit attention in 1982. Seventeen respondents - including all of the largest units - devoted more than 25% of their time to auditing operations and services and only two reported that they carried out no auditing in this area. The remaining 12 indicated that they devoted some time (less than 25%) to this area.

(iv) ADP Auditing: All of the large and medium-size units - but only a few of the others - carried out auditing of ADP systems in 1982. For the most part, these organisations devoted up to 25% of their time to such auditing. Of the nine who reported no auditing of ADP systems as such, some would have been involved in ADP auditing as part of their normal audits of financial or operational systems.

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4 These subject areas are further defined in IDAC Paper No. 53 'The Role and Scope of Internal Audit'.

18.   Further details of the nature of the ADP auditing carried out in 1982 are given in Table No. 11 and this Table also contains information concerning organisations' plans for achieving an adequate ADP audit capability. It will be noted that ten organisations - including five of the six largest units - regard ADP auditing as 'very significant' for their organisations while a further 13 view such auditing as 'significant'. Most of them report that they have assessed the nature and extent of the ADP audit tasks which lie ahead and are making arrangements to secure or train the requisite personnel. [5] Nine of the organisations rating ADP audit as 'very significant' or 'significant' expect to achieve an adequate ADP audit capability before or by the end of 1983 but most of them report target dates in the period 1984/85.[6]

19.   Details of the various purposes for which internal audits were conducted in 1982 are given in Tables No. 8 and 10. These Tables indicate that whilst all internal audit organisations continue to be concerned with auditing designed to establish the integrity of information or compliance with the relevant laws, policies and controls, many of them (about two-thirds of the total) also place considerable emphasis on audits with other objectives such as the economy, efficiency and effectiveness of the activities under review. Some indication of the diversity of audit objectives and of the extent to which those objectives were pursued in 1982 is given in the following table:

Number and Proportion of Internal Audit Units in 1982 in
which Audits were often or always concerned with
the following purposes

Purposes of Audits	Audit Units	
	No.	%
(i) Integrity of information	27	87
(ii) Compliance with laws, policies, directives	31	100
(iii) Economy in use of resources	22	71
(iv) Efficiency in use of resources	18	58
(v) Effectiveness	20	65
(vi) Diagnosis of problems	22	71

20.   As in the previous year the trend towards greater diversification of audit objectives was less pronounced in the smaller audit units. Of the 15 smaller units only about half of them frequently carried out audits directed towards efficiency and effectiveness objectives. It is perhaps also worth noting that in 22 audit units (both large and small) audits were frequently carried out for a purely diagnostic purpose - i.e. to diagnose problems and establish whether further examination was warranted. A dissection of the figures as between the larger and smaller audit units is provided below:

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5   Generally this assessment of the ADP audit task has been made by departments against the guidelines suggested in IDAC Paper No. 31 'The Development of Departmental Arrangements for ADP Auditing'.

6   In general, these target dates are more conservative than those put forward by organisations in last year's IDAC survey. The lengthy time required to develop adequate capability in this area reflects the importance, size and complexity of ADP systems and services in the APS, the breadth of the ADP audit task suggested in IDAC Paper No. 31, the progressive development of new training courses, and the need for extensive on-the-job experience.

Internal Audit Units in which Audits were often or always
concerned with the following purposes

Type of Audit Unit	(i) Integrity	(ii) Compliance	(iii) Economy	(iv) Efficiency	(v) Effectiveness	(vi) Diagnostic
Large : 6	5	6	6	6	5	4
Medium: 10	9	10	7	5	8	7
Small : 7	6	7	6	3	3	4
Very Small : 8	7	8	3	4	4	7
TOTAL : 31	27	31	22	18	20	22

21.   The number of internal audits carried out in the eleven months to November 1982 was 2678. [7] A dissection of this figure is given below:

Number of Audits in 1982
(By duration)

Type of Audit Unit	Less than 1 week	1 - 5 weeks	Over 5 weeks	Total
Large : 6	536	607	461	1604
Medium : 10	230	346	203	779
Small : 6	30	107	60	197
Very Small : 7	30	52	16	98
TOTAL : 31	826	1112	740	2678

C.   ORGANISATION AND MANAGEMENT

22.   All of the 32 internal audit organisations operate under formal audit charters. In the past twelve months 21 organisations reviewed their charters and 15 found it necessary to make some amendments. (Details in Table No. 12.)

23.   Of the 31 units which carried out internal auditing in 1982 26 relied entirely on their own resources while six of them utilised, to some extent, the services of other departments or private consultants. The key figures are shown below and further details are provided in Table No. 13. Organisations were also asked whether they might seek some assistance from these other sources over the next two years; nearly half of them replied in the affirmative.

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7   Comparable figures for the previous year are unavailable.

Internal Audit Units - Sources of Audit Services

Type of Audit Unit	Own Resources Only	Own Resources Plus Services of:	
		Other Departments	Private Consultants
Large	5	-	1
Medium	9	-	1
Small	6	2	
Very Small	5	2	
	25	4	2

24.   Audit Committees - or other senior management committees with similar responsibilities - have now been established in 20 organisations including each of the major units. For the most part, these committees meet every quarter and are responsible for the general direction and follow-up of internal audit activities (Table No. 14).

25.   The data in Table No. 15 indicates that in all cases Chief Internal Auditors have the right of direct access to the Permanent Head and are directly responsible to senior management. In all the organisations their internal audit activities and resources are now subject to central control.

26.   Table No. 16 reveals that 23 organisations have issued their own internal audit manuals and that 28 conduct quality assurance programs. All but one have audit plans which are approved by the Audit Committee and/or senior management and which provide a basis for controlling and reviewing the progress of internal audit activities. (Table No. 17.)

D.   ORGANISATIONS' ASSESSMENTS OF PROGRESS AND PERFORMANCE

27.   Organisations were invited to provide certain indications of their internal audit performance in 1982 and of the extent to which they themselves considered that their internal audit activities were beneficial to them. These indicators and assessments are brought together in Tables No. 18 to 25.

28.   Organisations were asked to indicate whether there was a reasonable correlation in 1982 between their audit plans and the actual performance. All of the major audit units and all except two of the medium-size units replied in the affirmative. Of the 16 smaller organisations five reported that their actual performance fell short of their audit plans. In most cases recruitment delays or shortage of suitable staff were cited as the main factors responsible for the shortfall. (Details in Tables No. 18.)

29.   Tables 19 to 21 provide information concerning the extent to which internal audit reports were accepted or otherwise dealt with in 1982. In that year there was an overall acceptance rate of 72%. Of the remaining 28% of recommendations many had simply been noted or not yet considered; the proportion of audit recommendations rejected was 4%. Half of the organisations reported no rejections of audit recommendations in 1982 whilst in five cases the rejection rate exceeded 10% of the recommendations made. The reason most frequently given for rejections was that the recommendation was not practicable to implement.

30.   Organisations' assessments of the benefits they derived from their internal audit operations in 1982 are summarised in Table No. 22. The main benefits referred to by respondents and the number of times these particular benefits were cited are set out below:

Main Benefits	Number of Times Cited
Improved control or procedural arrangements	31
Reassurance to management	29
Identification of significant shortfalls in:	
. compliance	28
. efficiency	20
. effectiveness	18
Specific savings or economies	16
Reallocation of resources	11

31.   Virtually all of the organisations expressed the view that they obtained value for money from their internal audit activities in 1982. The main reasons in support of this view are set out in Table No. 23.

32.   At the same time, some organisations reported they were not completely satisfied with the progress or standard of performance they had achieved to date. Various factors which were said to have impeded internal audit progress in 1982 are set out in Table No. 25; the difficulty most frequently cited was the lack of adequate staff. Organisations were also invited to indicate whether they considered there is a need to expand the present ambit of their internal audit operations. Twelve respondents considered that some changes were desirable but half of these felt that it was not possible to proceed with such changes at this stage. (Table No. 24.)

Additional Information

33.   Details of IDAC and its Sub-Committees and of the professional bodies and groups actively involved in the internal audit development program are provided in Appendices C and D.

34.   Recent references to internal audit in the reports of the Public Service Board and the Auditor-General are listed in Appendix E while an index to previously circulated IDAC documents is provided in Appendix F.

SURVEY OF INTERNAL AUDIT IN THE AUSTRALIAN PUBLIC SERVICE

LIST OF TABLES

CLASSIFICATION OF INTERNAL AUDIT UNITS

BASED ON ACTUAL STAFF AS AT 30.11.1982

	Department/Authority	No.	Total	
Large (Over 25)	Defence	132		
	Social Security	84		
	Taxation Office	72		
	Veterans' Affairs	57		
	Transport and Construction	28		
	Industry and Commerce	30	403	(65%)
Medium (10 - 25)	Aviation	20		
	Employment and Industrial Relations	19		
	Administrative Services	24		
	Health	19		
	Defence Support	11		
	Education	10		
	Attorney-General's	15		
	Capital Territory	16		
	Primary Industry	11		
	Foreign Affairs	16	161	(26%)
Small (4 - 10)	Aboriginal Affairs	10		
	Finance	5		
	Immigration and Ethnic Affairs	7		
	Science and Technology	5		
	National Development and Energy	5		
	Bureau of Statistics	5		
	Capital Territory Health Commission	4	41	(7%)
Very Small (Under 4)	Home Affairs and Environment	1		
	National Library	3		
	Public Service Board	3		
	ACT Schools Authority	1		
	Communications	1		
	Industries Assistance Commission	0		
	Prime Minister and Cabinet	2		
	Trade and Resources	3		
	Trade Practices Commission	1	15	(2%)
	TOTAL		**620**	

NUMBER AND MOVEMENT OF INTERNAL AUDIT STAFF 1981 AND 1982

Movement of Internal Audit Staff in 1982

Note 1 : The Department of Defence Support was created by Administrative Arrangement Order in May 1982. The figures for 1981 relate to the abolished Department of Productivity which forms the core of the new department.

Note 2 : The Department of Finance noted that recruitment action in hand for 4 positions will increase staff numbers to 9 by 31 December 1982.

INTERNAL AUDIT STAFF AT 30.11.1982
COMPARISON OF ESTABLISHMENT AND ACTUAL FIGURES

Department/Authority	Estab (1)	Actual (2)	(2) as % of (1)	Comments (including recent developments)
Defence				
Social Security	156	132	85	15 recruits pending
Taxation Office	103	84	82	
Veterans' Affairs	83	72	87	Lower estab expected
Transport and Construction	68	57	84	Recruiting difficult
Industry and Commerce	35	28	80	Rec. action in hand
	32	30	94	
GROUP SUB-TOTAL	477	403	84	
Aviation	27	20	74	Reorg appd. Dec '82
Employment and Industrial Relations	26	19	73	Staff ceiling 24
Administrative Services	31	24	77	Staff ceiling 23
Health	20	19	95	
Defence Support	20	11	55	Re-org proposed
Education	16	10	63	Re-org proposed
Attorney-General's	17	15	88	
Capital Territory	16	16	100	
Primary Industry	14	11	79	Filling action pendg
Foreign Affairs	20	16	80	Ceilings/Funds
GROUP SUB-TOTAL	207	161	78	
Aboriginal Affairs	14	10	71	Re-org proposed
Finance	12	5	42	4 arrive Dec 82
Immigration and Ethnic Affairs	9	7	78	1 seconded out
Science and Technology	9	5	56	2 seconded out
National Development and Energy	7	5	71	Staff ceilings
Australian Bureau of Statistics	5	5	100	
Capital Territory Health Commission	5	4	80	
GROUP SUB-TOTAL	61	41	67	
Home Affairs and Environment	4	1	25	
National Library of Australia	3	3	100	
Public Service Board	3	3	100	
ACT Schools Authority	1	1	100	
Communications	3	1	33	
Industries Assistance Commission	1	0	0	Recruiting difficult Vacancy advertised
Prime Minister and Cabinet	2	2	100	
Trade and Resources	3	3	100	
Trade Practices Commission	1	1	100	
GROUP SUB-TOTAL	21	15	71	
TOTAL	766	620	81	

TOTAL STAFF – ACTUAL AND ESTABLISHMENT AS AT 30.11.1982 ## BY LOCATION

Department/Authority	Total (Estab / Actual)
Defence	156 / 132
Social Security	103 / 84
Taxation Office	83 / 72
Veterans' Affairs	68 / 57
Transport & Construction	35 / 28
Industry & Commerce	32 / 30
GROUP SUB-TOTAL	477 / 403
Aviation	27 / 20
Employment & Industrial Relations	26 / 19
Administrative Services	31 / 24
Health	20 / 19
Defence Support	20 / 11
Education	16 / 10
Attorney-General's	17 / 15
Capital Territory	16 / 16
Primary Industry	14 / 11
Foreign Affairs	20 / 16
GROUP SUB-TOTAL	207 / 161
Aboriginal Affairs	14 / 10
Finance	12 / 5
Immigration & Ethnic Affairs	9 / 7
Science & Technology	9 / 5
National Development & Energy	7 / 5
Australian Bureau of Statistics	5 / 5
Cap.Ter.Health Commission	5 / 4
GROUP SUB-TOTAL	61 / 41
Home Affairs & Environment	4 / 1
National Library of Australia	3 / 3
Public Service Board	3 / 3
ACT Schools Authority	1 / 1
Communications	3 / 1
Industries Assistance Commission	1 / 0
Prime Minister & Cabinet	2 / 2
Trade & Resources	3 / 3
Trade Practices Comm.	1 / 1
GROUP SUB-TOTAL	21 / 15
TOTAL	766 / 620

Table No. 5

TOTAL STAFF - ACTUAL AND ESTABLISHMENT AS AT 30.11.1982
** BY SALARY CLASSIFICATION **

Classification																														Total
Dept/Authority																														

Defence
Social Security
Taxation Office
Vets' Affairs
Transport & Cons
Ind & Commerce

GROUP SUB-TOTAL

Aviation
Employment &
  Ind'l Relations
Admin Services
Health
Defence Support
Education
Att'y-General's
Primary Industry
Foreign Affairs

GROUP SUB-TOTAL

Aborig'l Affairs
Finance
Immigration &
  Ethnic Affairs
Sci & Technology
Nat. Development
  & Energy
Aust.Bur.Stats.
Cap.Ter. Health
  Commission

GROUP SUB-TOTAL

Home Affairs
  & Environment
National Library
Public Ser.Board
ACT Schools Auth
Communications
Ind's Assistance
  Commission
Prime Min.& Cab.
Tr. Resources Co.
Tr.Practices Com.

GROUP SUB-TOTAL

TOTAL

Note: In most cases ADP audit specialist positions are classified within the clerical/administrative structure; the small number of CSO (Computer Systems Officer) positions is not an indication of the number of specialist ADP audit positions. The attributes sought for ADP audit positions are discussed in IDAC Paper No. 31 - The Development of Departmental Arrangements for ADP Auditing ".

Table No. 6

EDUCATION AND TRAINING

Department/Authority	Actual Staff	Tertiary Education of Staff As at November 1982								Basic Training							

Defence
Social Security
Taxation Office
Veterans' Affairs
Transport & Construction
Industry & Commerce

GROUP SUB-TOTAL

Aviation
Employment
  & Industrial Relations
Administrative Services
Health
Defence Support
Education
Attorney-General's
Capital Territory
Primary Industry
Foreign Affairs

GROUP SUB-TOTAL

Aboriginal Affairs
Finance
Immigration
  & Ethnic Affairs
Science & Technology
National
  Development & Energy
Australian
  Bureau Statistics
Cap.Ter.Health Commission

GROUP SUB-TOTAL

Home Affairs
  & Environment
National Library
Public Service Board
ACT Schools Authority
Communications
Ind's Assistance Commission
Prime Minister & Cabinet
Trade & Resources
Trade Practices Comm.

GROUP SUB-TOTAL

TOTAL

INTERNAL AUDIT DEVELOPMENT PROGRAM – TRAINING DELIVERED

Availability/Subject Matter	Duration of Course (days)	1.6.79 to 31.12.81	1.1.82 to 30.11.82	1.12.82 to 31.3.83	Total	Total Training Days Provided
			Attendees			
Internal Audit Managers' Course	7.0	233			233	45.0
Internal Audit Practitioners' Course	5.0	823	62	35	920	25.0
System Based Audit Modules	5.0	59			59	1.0
Seminar/Briefing Sessions	0.5	408			408	4.5
Packaged Courses Presentation Workshop	2.0					
Basic ADP Audit (CICA 1 & CICA 2)	10.0	427	20	5	475	240.0
Basic ADP Audit Practical Work	20.0	295			295	320.0
Advanced ADP Audit	5.0	51			51	15.0
Computer Security Audit and Control	2.5	51		18	70	12.5
Advanced On-line Systems Audit and Control	2.5	43	27		70	12.5
Auditability into Systems	1.0	70			70	1.0
How to Design and Build Internal Controls	2.5		27		27	2.5
ADP Concepts	5.0		20		20	5.0
Data Communication Concepts	2.5		30		44	10.0
Data Dictionary Concepts	1.0		49		49	1.5
Audit & Control of Data Base Environment Course	1.0		21		31	1.5
Audit & Control of Data Base Environment Workshop	3.0			31	31	4.0
Audit & Control of Data Communication Env. Course	1.0		29	17	29	1.5
Audit & Control of Data Communication Env. Workshop	1.0			15	15	2.0
ADP Security	2.5		51	18	69	2.0
Generalised Audit Software Packages	0.5		18	15	33	10.0
Audit Implications of the Microcomputer Revolution	various			16	16	7.0
						0.5
TOTAL		**2552**	**386**	**186**	**3124**	**960.0**

Courses Under Development :

```
*** Audit Problems of Small Computers          (Scheduled for April/June 1983)
*** Auditing the Systems Development Process    (Scheduled for April/May 1983)
*** Test Data Approach                          (Scheduled for July 1983)
*** ADP Audit Workshop for Audit Managers       (Scheduled for April 1983)
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Key:

```
*** IDAC packaged course
**  Prepared by IDAC - not now available
*   Course prepared and presented by external consultant
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See Appendix B for details of training program January to June 1983.

SUBJECT MATTER, PURPOSES AND NUMBER OF AUDITS AND TIME DEVOTED TO RESEARCH AND DEVELOPMENT

Key to Table No. 8

Subject Matters of Audits (see also Table 9)

(I)	F&A	=	Financial and Accounting
(II)	A&M	=	Administration and Management
(III)	O&S	=	Operations and Services
(IV)	ADP	=	ADP Systems and Services other than in (I), (II), (III) and (V)
(V)	Other	=	Other emphasises specified by responding organisations

Number of "***" indicates degree of concentration as percentage of total audit time available to the organisation in 1982:-

```
*     =  0-25%
**    =  26-75%
***   =  76-100%
```

Purposes of Audits (see also Table 10)

(I)	Integrity	=	Integrity of information
(II)	Compliance	=	Compliance with laws, policies, directives
(III)	Economy	=	Economy of use of resources
(IV)	Effcy	=	Efficiency in use of resources
(V)	Effec'ness	=	Effectiveness
(VI)	Diagnosis	=	Diagnosis of problems
(VII)	Other	=	Other aims as specified by responding organisations (see Table 10)

A	=	Always
O	=	Often
S	=	Sometimes
Blank	=	Never

Table No. 8

SUBJECT MATTER, PURPOSE AND NUMBER OF AUDITS
AND TIME DEVOTED TO RESEARCH AND DEVELOPMENT

Department / Authority	Emphasis on Subject Matter of Audits					Purpose of Audits / Extent of Involvement							Number of Audits (by Size)				Audit R&D % of Total Audit Time
	(i) F&A	(ii) A&M	(iii) O&S	(iv) ADP	(v) Other	(i) Integrity	(ii) Compliance	(iii) Econ	(iv) Effic	(v) Effec	(vi) Diagnosis	(vii) Other	Small Up to 1Wk	Med 1-5 Wks	Large 5+ Wks	Total	
Defence																	
Social Security																	
Taxation Office																	
Veterans' Affairs																	
Transport & Construction																	
Industry & Commerce																	
GROUP SUB-TOTAL													536	461	607	1604	
Aviation																	
Employment & Industrial Relations																	
Administrative Services																	
Health																	
Defence Support																	
Education																	
Attorney-General's																	
Capital Territory																	
Primary Industry																	
Foreign Affairs																	
GROUP SUB-TOTAL													230	346	203	779	
Aboriginal Affairs																	
Finance																	
Immigration & Ethnic Affairs																	
Science & Technology																	
National Development & Energy																	
Australian Bureau of Statistics																	
Cap.Ter.Health Commission																	
GROUP SUB-TOTAL																	
Home Affairs & Environment																	
National Library																	
Public Service Board																	
ACT Schools Authority																	
Communications																	
Ind.Assistance Commission																	
Prime Minister & Cabinet																	
Trade & Resources																	
Trade Practices Comm.																	
GROUP SUB-TOTAL													30	107	60	197	
TOTAL/AVERAGE													826	1112	740	2878	AV 10

Table No. 9

SUBJECT MATTERS OF AUDITS: ORGANISATION'S ASSESSMENTS OF THE PERCENTAGE
OF TOTAL AUDIT TIME DEVOTED TO PARTICULAR SUBJECT MATTERS

Subject Matters	% of Time		Number of Respondents
Financial and Accounting	100	*	1
	76 - 99		0
	26 - 75	* * * * * * * * * * * *	12
	1 - 25	* * * * * * * * * * * * * * * * * *	18
	0		0
			31
Administration and Management	100		0
	76 - 99		0
	26 - 75	* * * * * * * * * * * * * * * *	16
	1 - 25	* * * * * * * * * * * *	12
	0	* * *	3
			31
Operations and Services	100		0
	76 - 99		0
	26 - 75	* * * * * * * * * * * * * * * * *	17
	1 - 25	* * * * * * * * * * * *	12
	0	* *	2
			31
ADP Systems and Services	100		0
	76 - 99		0
	26 - 75	* *	2
	1 - 25	* * * * * * * * * * * * * * * * * * * *	20
	0	* * * * * * * * *	9
			31

Other Indicated Subject Matters			
Preliminary Studies	1 - 25	*	1
Special Investigations	1 - 25	*	1
Management Initiated Reviews	1 - 25	*	1
Management Consultancy	1 - 25	*	1

Table No. 10

PURPOSES OF AUDITS: ORGANISATIONS' ASSESSMENTS OF THE FREQUENCY WITH WHICH AUDITS WERE CONCERNED WITH PARTICULAR PURPOSES

Purposes	Frequency		Number of Respondents
Integrity of information	Always	* * * * * * * * * * * * * * * * * *	18
	Often	* * * * * * * * *	9
	Sometimes	* * * *	4
	Never		0
			31
Compliance with laws, policies and directives	Always	* * * * * * * * * * * * * * * * * * *	27
	Often	* * * *	4
	Sometimes		0
	Never		0
			31
Economy of use of resources	Always	* * * * * * * * * *	10
	Often	* * * * * * * * * * * *	12
	Sometimes	* * * * * * * *	8
	Never	*	1
			31
Efficiency in use of resources	Always	* * * * *	5
	Often	* * * * * * * * * * * * *	13
	Sometimes	* * * * * * * * * *	10
	Never	* * *	3
			31
Effectiveness	Always	* * * * * * * * * *	10
	Often	* * * * * * * * * *	10
	Sometimes	* * * * * * *	7
	Never	* * * *	4
			31
Diagnosis of problems	Always	* * * * * * * * * * * * *	13
	Often	* * * * * * * * *	9
	Sometimes	* * * * * * * * *	9
	Never		0
			31

Other Indicated Purposes

System control and improvement	Always	*	1
Post implementation review	Always	*	1
Audit surveys	Often	*	1

Table No. 11

Note 1 : ADP audit in the Bureau of Statistics is not undertaken by the Internal Audit Unit but by a number of Committees defined within the Bureau of Statistics System Methodology.

Note 2 : CTRC expects to achieve an adequate ADP audit capability progressively over the next 5 years as systems are introduced.

Table No. 12

INTERNAL AUDIT CHARTERS

Department/Authority	Audit Charter Action in Past 12 Months				
	Charter Reviewed		Charter Changed		Comments
	Yes	No	Yes	No	
Defence	*			*	Changes being prepared
Social Security		*		*	No formal review, adequacy tested by frequent reference.
Taxation Office		*		*	
Veterans' Affairs	*			*	
Transport and Construction		*		*	No formal review, adequacy tested by frequent reference.
Industry and Commerce	*			*	
GROUP SUB-TOTAL	3	3	0	6	
Aviation		*		*	
Employment and Industrial Relations	*		*		Distbn of audit reports
Administrative Services	*		*		Divisional res'bilities
Health	*		*		Audit Cttee and central control of audit. Include IDAC/IIA recs
Defence Support	*		*		
Education		*		*	
Attorney-General's				*	
Capital Territory	*		*		Audit Cttee & redefine audit's role.
Primary Industry		*		*	
Foreign Affairs	*		*		Quality assurance
GROUP SUB-TOTAL	7	3	6	4	
Aboriginal Affairs		*		*	
Finance	*		*		Audit Cttee, gen upgrade
Immigration and Ethnic Affairs	*		*		Revision underway
Science and Technology		*		*	
National Development and Energy		*		*	
Australian Bureau of Statistics	*		*		Minor admin changes
Capital Territory Health Commission	*		*		ADP audit resources, Aud Cttee, relationship with other review groups.
GROUP SUB-TOTAL	4	3	4	3	
Home Affairs and Environment	*			*	
National Library of Australia	*		*		Several expansions incl purpose & nature of IA, ADP audit, qual. control. Audit Committee.
Public Service Board	*		*		
ACT Schools Authority		*		*	
Communications	*		*		Audit Committee, quality assurance.
Industries Assistance Commission		*		*	
Prime Minister and Cabinet	*			*	
Trade and Resources	*		*		Audit Cttee, scope of IA
Trade Practices Commission	*			*	
GROUP SUB-TOTAL	7	2	4	5	
TOTAL	21	11	14	18	

Table No. 13

ORGANISATIONS WITH THEIR OWN INTERNAL AUDIT UNITS
Indicated Sources of Audit Services

Department/Authority	1982			Possible Future Use of "Outside" Services
	Own Resources Only	Own Resources Plus Services of:		
		Other Depts.	Private Consultants	
Defence	*			
Social Security	*			
Taxation Office	*			*
Veterans' Affairs	*			*
Transport and Construction			*	*
Industry and Commerce				*
GROUP SUB-TOTAL	5	0	1	2
Aviation	*			
Employment and Industrial Relations	*			
Administrative Services	*			
Health	*			*
Defence Support	*			
Education			*	*
Attorney-General's	*			
Capital Territory	*			
Primary Industry	*			
Foreign Affairs				*
GROUP SUB-TOTAL	9	0	1	3
Aboriginal Affairs	*			*
Finance	*			*
Immigration and Ethnic Affairs	*			
Science and Technology		*(i)		
National Development and Energy		*		
Australian Bureau of Statistics	*			
Capital Territory Health Commission	*			*
GROUP SUB-TOTAL	5	2	0	3
Home Affairs and Environment	*			
National Library of Australia	*			*
Public Service Board	*			*
ACT Schools Authority	(ii)			
Communications		*		*
Industries Assistance Commission	*			
Prime Minister and Cabinet	*			*
Trade and Resources	*			
Trade Practices Commission	*			5
GROUP SUB-TOTAL	6	2	0	5
TOTAL	25	4	2	13

(i) Administrative Services and Social Security provide assistance with audits in W.A. and N.T.

(ii) No audit staff for most of 1982; Chief Internal Auditor took up duty in November 1982. No audits completed during the year.

AUDIT/MANAGEMENT COMMITTEES

Department/Authority	Committee Established		Frequency of Meetings		Responsible for follow-up of Audit Recomndns	
	Yes	No	1/2 Yly	Qtly	Yes	No
Defence	*		*			*
Social Security	*			*	*	
Taxation Office	*			*	*	
Veterans' Affairs	*			*		*
Transport and Construction	*			*	*	
Industry and Commerce	*			*	*	
GROUP SUB-TOTAL	6	0	1	5	4	2
Aviation	*			*	*	
Employment and Industrial Relations		*		*	*	
Administrative Services	*			*		*
Health	*			*	*	
Defence Support		*				
Education	*			*	*	
Attorney-General's		*				
Capital Territory	*			*	*	
Primary Industry		*				
Foreign Affairs	*			*	*	
GROUP SUB-TOTAL	6	4	0	6	5	1
Aboriginal Affairs		*				
Finance	*			*		*
Immigration and Ethnic Affairs		*				
Science and Technology	*			*	*	
National Development and Energy	*			*	*	
Australian Bureau of Statistics		*				
Capital Territory Health Commission	*			*	*	
GROUP SUB-TOTAL	4	3	0	4	3	1
Home Affairs and Environment	*			*	*	
National Library of Australia	*			*	*	
Public Service Board	*			*	*	
ACT Schools Authority		*				
Communications		*				
Industries Assistance Commission		*				
Prime Minister and Cabinet		*				
Trade and Resources	*			*	*	
Trade Practices Commission		*				
GROUP SUB-TOTAL	4	5	0	4	4	0
TOTAL	20	12	1	19	16	4

CHIEF INTERNAL AUDITORS

Department/Authority	Directly Responsible to					Right of Access to Permanent Head	Central Control of Int. Audit Resources
	Aud Com	Perm Head	Dep Sec	Div Hd	Br Hd		
Defence		*		*		*	*
Social Security		*				*	*
Taxation Office				*		*	*
Veterans' Affairs	*	*		*		*	*
Transport and Construction				*		*	*
Industry and Commerce							
GROUP SUB-TOTAL	1	2	1	4	0	6	6
Aviation				*		*	*
Employment and Industrial Relations		*	*			*	*
Administrative Services				*		*	*
Health						*	*
Defence Support	*					*	*
Education					*	*	*
Attorney-General's	*					*	*
Capital Territory			*			*	*
Primary Industry						*	*
Foreign Affairs					*	*	*
GROUP SUB-TOTAL	2	1	2	3	2	10	10
Aboriginal Affairs				*		*	*
Finance	*		*			*	*
Immigration and Ethnic Affairs	*					*	*
Science and Technology			*			*	*
National Development and Energy				*		*	*
Australian Bureau of Statistics						*	*
Capital Territory Health Commission						*	*
GROUP SUB-TOTAL	2	1	1	2	2	7	7
Home Affairs and Environment				*		*	*
National Library of Australia	*		*			*	*
Public Service Board		*	*			*	*
ACT Schools Authority				*		*	*
Communications	*	*				*	*
Industries Assistance Commission						*	*
Prime Minister and Cabinet				*		*	*
Trade and Resources	*					*	*
Trade Practices Commission						*	*
GROUP SUB-TOTAL	3	2	1	2	6	9	9
TOTAL	8	6	5	11	10	32	32

Table No. 16

INTERNAL AUDIT MANUALS AND QUALITY ASSURANCE PROGRAMS

| | Internal Audit Manual | | | | | Quality | |
| | Issued | | Frequency of Review | Reflects Current Policy and Practice | | Assurance Program | |
	Yes	No		Yes	No	Yes	No
Defence							
Social Security	*		Underway		*	*	
Taxation Office	*		On-going	*		*	
Veterans' Affairs	*		On-going	*		*	
Transport and Construction		*				*	
Industry and Commerce	*		On-going	*		*	
GROUP SUB-TOTAL	*		On-going	*		*	
	5	1		4	1	6	0
Aviation	*		On-going	*		*	
Employment and Industrial Relations	*		Underway	*		*	
Administrative Services	*		Underway	*		*	
Health	*		On-going	*		*	
Defence Support	*		On-going		*	*	
Education	*		Annually	*		*	
Attorney-General's	*		Annually	*		*	
Capital Territory	*		On-going	*		*	
Primary Industry		*	In Preparation				*
Foreign Affairs							
GROUP SUB-TOTAL	9	1	As required	*		*	
Aboriginal Affairs	*			8	1	9	1
Finance	*		As required	*		*	
Immigration and Ethnic Affairs	*		Annually		*	*	
Science and Technology	*		Annually			*	
National Development and Energy	*		On-going	*		*	
Australian Bureau of Statistics		*				*	
Capital Territory Health Commission	*		Underway	*		*	
GROUP SUB-TOTAL	*		Annually	*		*	
	6	1		5	1	7	0
Home Affairs and Environment		*				*	
National Library of Australia	*		Annually		*	*	
Public Service Board	*		Regularly	*		*	
ACT Schools Authority		*				*	
Communications		*					*
Industries Assistance Commission		*				*	
Prime Minister and Cabinet		*					*
Trade and Resources		*				*	
Trade Practices Commission		*				*	
GROUP SUB-TOTAL	*		Annually	*			*
	3	6		2	1	6	3
TOTAL	23	9		19	4	28	4

Table No. 17

REVIEW OF AUDIT PLANS

| Department/Authority | Comparison of activities With Audit Plans | | | Audit Plan Approved By: | |
	Y1y	1/2Y1y	Q'tly	Audit Cttee	Senior Mgment
Defence			*	* 1	
Social Security			*	*	
Taxation Office			*	*	
Veterans' Affairs			* 2	*	
Transport and Construction	* 3			*	*
Industry and Commerce			*	*	
GROUP SUB-TOTAL	1	0	5	6	1
Aviation			*	*	
Employment and Industrial Relations			* 4	*	*
Administrative Services		*		*	*
Health		*		*	
Defence Support		*		(Director IA)	
Education			*	*	*
Attorney-General's			*	*	*
Capital Territory		*		*	*
Primary Industry			*	*	*
Foreign Affairs			*	*	*
GROUP SUB-TOTAL	0	4	6	7	5
Aboriginal Affairs			*	*	*
Finance	*			*	*
Immigration and Ethnic Affairs		*		*	*
Science and Technology			*	*	
National Development and Energy		*		*	
Australian Bureau of Statistics			*		*
Capital Territory Health Commission			*	*	*
GROUP SUB-TOTAL	1	2	4	4	4
Home Affairs and Environment			*	*	
National Library of Australia		*		*	
Public Service Board		*		*	
ACT Schools Authority		*		*	*
Communications		*		*	
Industries Assistance Commission		*		*	*
Prime Minister and Cabinet		*		*	*
Trade and Resources		*			*
Trade Practices Commission			*	*	*
GROUP SUB-TOTAL	0	5	4	5	4
TOTAL	2	11	19	22	14

1   Broad guidelines from Audit Committee which reviews progress 6 monthly
2   Reviewed quarterly by Audit Committee, monthly by audit unit.
3   Reviewed at least annually by Audit Committee, monthly by Director I.A.
4   Reviewed quarterly at C.O., monthly by Regional Offices.

Table No. 18

CORRELATION BETWEEN AUDIT PLANS AND ACTUAL PERFORMANCE IN 1982

Department/Authority	Reasonable Correlation Reported	Plans Not Fully Implemented
		Main Relevant Factor
Defence	*	
Social Security	*	
Taxation Office	*	
Veterans' Affairs	*	
Transport and Construction	*	
Industry and Commerce	*	
GROUP SUB-TOTAL	6	
Aviation	*	
Employment and Industrial Relations	*	
Administrative Services	*	
Health	*	
Defence Support		Several major audits took longer. Training new staff. Recruitment delays.
Education		Shortage of staff caused by underclassified positions.
Attorney-General's	*	
Capital Territory	*	
Primary Industry	*	
Foreign Affairs	*	
GROUP SUB-TOTAL	8	
Aboriginal Affairs	*	
Finance		Lack of field audit staff and restrictions on recruiting
Immigration and Ethnic Affairs	*	
Science and Technology	*	
National Development and Energy		Underestimate of time required Items carried over from 1981. Attendance of staff at trng courses greater than expected
Australian Bureau of Statistics	*	
Capital Territory Health Commission	*	
GROUP SUB-TOTAL	5	
Home Affairs and Environment		Rapid staff turnover leading to lack of resources
National Library of Australia		24% overrun put down to need to fully document systems for first time and increased ADP audit involvement
Public Service Board	*	
ACT Schools Authority	* .	
Communications		Chief Internal Auditor took up duty in November 1982
Industries Assistance Commission	*	Some shortfall towards end of year when audit posn unfilled
Prime Minister and Cabinet	*	
Trade and Resources	*	
Trade Practices Commission	*	
GROUP SUB-TOTAL	6	
TOTAL	25	

Table No. 19

ACCEPTANCE OF AUDIT RECOMMENDATIONS

Department/Authority	Accepted %	Noted %	Rejected %	Not Yet Considered %
Defence	70	20	5	5
Social Security	65	20	5	10
Taxation Office	74	5	10	11
Veterans' Affairs	100	0	0	0
Transport and Construction	60	40	0	0
Industry and Commerce	85	10	3	2
GROUP AVERAGE	75	16	4	5
Aviation	80	20	0	0
Employment and Industrial Relations	75	15	0	10
Administrative Services	70	10	0	20
Health	60	25	5	10
Defence Support	70	10	0	20
Education	85	10	5	0
Attorney-General's	70	20	5	5
Capital Territory	20	0	30	50*
Primary Industry	45	35	20	0
Foreign Affairs	70	15	10	5
GROUP AVERAGE	64	16	8	12
Aboriginal Affairs	81	4	0	15
Finance	75	10	5	10
Immigration and Ethnic Affairs	100	0	0	0
Science and Technology	80	20	0	0
National Development and Energy	85	5	5	5
Australian Bureau of Statistics	75	20	5	0
Capital Territory Health Commission	100	0	0	0
GROUP AVERAGE	85	9	2	4
Home Affairs and Environment	20	80	0	0
National Library of Australia	70	10	0	20
Public Service Board	70	30	0	0
ACT Schools Authority	75	0	0	25
Communications	No Audits Completed			
Industries Assistance Commission	50	30	10	10
Prime Minister and Cabinet	60	15	5	20
Trade and Resources	100	0	0	0
Trade Practices Commission	100	0	0	0
GROUP AVERAGE	68	21	2	9
OVERALL AVERAGE	72	16	4	8

* Reported as under consideration but decision not formally advised.

Table No. 20
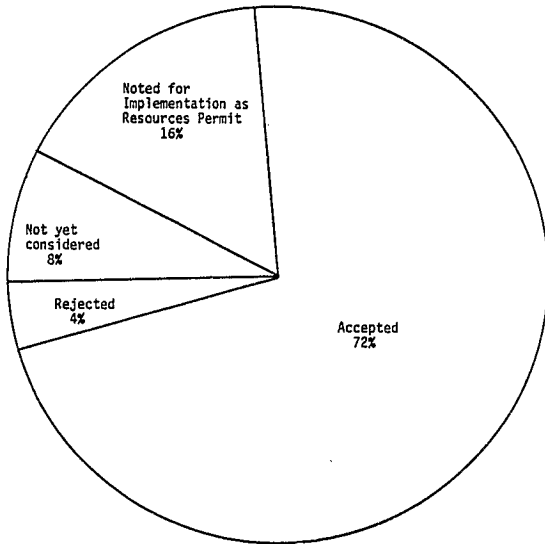
RESPONSE TO AUDIT RECOMMENDATIONS

Noted for
Implementation as
Resources Permit
16%

Not yet
considered
8%

Rejected
4%

Accepted
72%

Table No. 21

PRINCIPAL REASONS FOR REJECTION OF AUDIT RECOMMENDATIONS

Reasons	Number of Reporting Departments	Total
Not Practicable to Implement	* * * * * * * * *	9
Insufficient Resources	* * * *	4
Controls Considered Adequate	* *	2
Areas Subject to Other Review	*	1
Marginal Cost Effectiveness	*	1
TOTAL		17

Table No. 22

BENEFITS DERIVED FROM INTERNAL AUDIT ACTIVITIES IN 1982

Benefits Reported	Number of Reporting Departments	Total
Specific savings/economies	* * * * * * * * * * * * * * * *	16
Improved control or procedural arrangements	* *	31
Identification of significant shortfalls in:		
- Compliance	* *	28
- Efficiency	* * * * * * * * * * * * * * * * * * * *	20
- Effectiveness	* * * * * * * * * * * * * * * * * *	18
Provision of additional resources	* * * * *	5
Reallocation of resources	* * * * * * * * * * *	11
Management reassurance	* *	29
Improved liaison CO/State operational groups	* *	2
Greater CO awareness of State practices & methods	*	1
Improved management information systems	*	1
Assistance to management and training at overseas posts	*	1

Table No. 23

INDICATORS OF VALUE FOR MONEY FROM AUDIT ACTIVITIES IN 1982

Virtually all of the organisations which carried out internal auditing expressed the view that they obtained value for money from their internal audit activities in 1982. The organisations reported that their views on this matter were based on or influenced by the following indicators:

Department/Authority	Comments
Defence	- Management's awareness of economies and priorities - Attitudes and reactions shown by auditees - Comments by members of the Audit Committee.
Social Security	- Degree of acceptance of recommendations
Taxation Office	- Audit activities have assisted considerably in the on-going task of effecting management improvements
Veterans' Affairs	- Results achieved to date and assessment of scope of expanded program for 1982/83
Transport and Construction	- Size and nature of department's expenditure and the need to give reassurance to management on system controls due to the complexities of work undertaken by the department
Industry and Commerce	- Staffing and financial savings identified - Effective source of information for management - Improved middle management awareness of, and attention to objectives, priorities, effectiveness and efficiency.
Aviation	- Continuing interest by administrative, technical and operational managers in ensuring that Internal Audit officers review the range of Departmental activities. Management wishes to test effectiveness of operations as well as to obtain reassurance.
Employment and Industrial Relations	- Despite restrictions imposed on resources, audits have identified shortcomings in procedures and practices
Administrative Services	- Internal Audit is a testing mechanism for systems and controls and for the protection of resources; it has identified changes to existing systems
Health	- Senior management has been made aware of, and has remedied problems identified by Internal Audit
Defence Support	- Question not answered. (Department did not operate throughout 1982.)

Education	- Internal Audit involvement in testing new ADP applications. - Identification of potential major problem areas and recommendation of solutions. - General reassurance that internal controls are operating.
Attorney-General's	- Management feedback and continued confidence in Internal Audit
Capital Territory	- The first half of 1982 was one of development of the section, training of new staff, planning and researching. Results in the second half of the year have more than satisfied management.
Primary Industry	- Acceptance and implementation of audit recommendations. - Incidence of management requested tasks.
Foreign Affairs	- Internal Audit is the only unit in the department which provides a complete cyclic review of administrative and operational aspects overseas and in Australia.
Aboriginal Affairs	- Given the complexities of audits undertaken, available resources and the audit results that were achieved,value for money was obtained.
Finance	- Value for money has been obtained in respect of the recommendations arising from those few audits completed. - Value for money is not yet being obtained from new staff who are not yet fully productive.
Immigration and Ethnic Affairs	- Assurance that the areas covered by Internal Audit comply with Departmental Policy and Legislation.
Science and Technology	- It has provided Central Office management with an independent review of a diverse number of activities in various geographic locations.
National Development and Energy	- Cost savings from Internal Audit activities have been material-in some cases savings will continue over a number of years - Intangible benefits have also accrued from revision of procedures and operations.
Australian Bureau of Statistics	- Feedback from line managers,audits and managerial judgement.
Capital Territory Health Commission	- Internal Audit activities as measured by the effectiveness of implementation indicate a high return for the organization on resources utilized.

Home Affairs and Environment	- Worthwhile reports,recommendations and follow up, and satisfaction of management requirements.
National Library of Australia	- Financial statements of the organisation accepted without qualifications. - Reviews by Commonwealth Audit raised no matter of significance with either Internal Audit or the Library overall.
Public Service Board	- Audit involvement in Central Office operational areas has increased significantly. The use of systems based techniques has helped to produce a meaningful contribution to the management in Central Office and the Regions
ACT Schools Authority	- Limited resources available fully utilised.
Industries Assistance Commission	- Independent appraisal for Commission management.
Prime Minister and Cabinet	- Internal Audit has highlighted possible problem areas,and reinforced management confidence in existing systems and operations.
Trade and Resources	- Benefits are high relative to cost of staff of three. Provides increased protection of assets through more effective use of current resorces.
Trade Practices Commission	- Internal Audit has revealed deficiencies in internal controls which have been remedied.

Table No. 24

ORGANISATIONS' ASSESSMENTS OF AMBIT OF THEIR INTERNAL AUDIT OPERATIONS

In the light of IDAC Paper No 53 'The Role and Scope of Internal Audit' Organisations were asked to indicate whether there is a need to review the ambit of their internal audit operations.

Response	Number of respondents	Total
Some changes may be desirable	* * * * * *	6
Some changes desirable but not possible at this stage	* * * * * *	6
Current role and scope adequate	* * * * * * * * * * * * * * * * * * *	19
Impact of IDAC 53 not yet considered	*	1

Table No. 25

ORGANISATIONS' COMMENTS ON FACTORS WHICH IMPEDED
INTERNAL AUDIT PROGRESS IN 1982

Department/Authority	Comments
Aviation	Pending a reorganisation proposal some positions were not filled. The progress made was consistent with manning levels and classifications.
Employment and Industrial Relations	Constraints on administrative funding and staffing have severely restricted performance.
Defence Support	Department was created in 1982 and organisation for internal audit area not yet developed. As regards former Department of Productivity progress was satisfactory.
Education	Internal Audit Unit understrength and under-classified. A reorganisation proposal is being considered by the PSB.(Now approved).
Finance	Lack of ADP and field audit staff has not permitted satisfactory progress.
National Development and Energy	With existing staff ceiling constraints the Audit strategic plan requires in excess of 4 years to complete. Shortfall in 1982 annual program indicates longer period may be required to achieve audit coverage. There is concern at the length of time it will take to achieve coverage of all auditable areas.
National Library of Australia	Audits have been primarily directed at management and financial aspects;there is demand for audits into efficiency and effectiveness of programs
ACT Schools Authority	Staff ceiling constraints affect staff and establishment levels. Activities have been hindered by doubts about Authority's responsibility to account for moneys raised by schools - proposed amendments to legislation should resolve this matter.
Trade and Resources	Establishment of 3 is inadequate and Internal Audit Unit is unable to fully implement the audit function outlined in the Audit Charter.

SURVEY OF INTERNAL AUDIT IN THE AUSTRALIAN PUBLIC SERVICE

APPENDICES

TEXT OF SURVEY QUESTIONNAIRE

OFFICE OF THE PUBLIC SERVICE BOARD
McLACHLAN OFFICES
National Circuit, Canberra, A.C.T. 2600

Reference: 82/6903   3 November 1982

All Departments and Statutory Authorities Staffed
under the Public Service Act
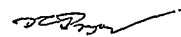
1982 QUESTIONNAIRE ON INTERNAL AUDIT IN THE AUSTRALIAN
PUBLIC SERVICE

In the attached questionnaire all APS organisations are being
asked to supply certain information concerning their internal
audit activities in 1982. Similar surveys were conducted in
respect of 1980 and 1981 and the results were brought together
in IDAC Papers Nos. 35 and 47.

2.   The main purpose of these surveys is to review the
progress being made in developing the internal audit function
and to provide information of interest to all those concerned
with the administration and further improvement of internal
auditing in the Service. On this occasion the information
should be useful also for the current Review of Commonwealth
Administration and the questionnaire covers the period up to
the end of November (rather than December) so that up-to-date
information can be made available to that Committee by the end
of 1982.

3.   The content and form of this year's questionnaire is
along similar lines to those in previous years. On this
occasion, however, we are asking fewer questions on procedural
and organisational aspects and seeking more information than
last year regarding the nature and purposes of your internal
audit activities together with your assessments of the extent
to which internal auditing is providing an effective and worth-
while service. Some of these questions will involve judgements
on the part of your Audit Committee or higher management. In
any event your response to the questionnaire as a whole should
carry the endorsement of senior management.

4.   I should be grateful if the information could be provided
(in duplicate) no later than Friday 3 December 1982.

F.C. Pryor
Chairman
Interdepartmental Advisory Committee
on Internal Audit

SURVEY OF INTERNAL AUDIT IN THE AUSTRALIAN PUBLIC SERVICE: NOVEMBER 1982

DEPARTMENT/ORGANISATION: ....

CONTACT OFFICER: ....TELEPHONE NO.: ....

Please return two copies of the completed questionnaire by 3 December
1982 to the Chairman, Joint Implementation Committee on Internal Audit,
Public Service Board, Canberra, ACT 2600. Enquiries concerning the
questionnaire may be directed to Mr Chris Carder (717271).

Definitions of Terms Used in the Questionnaire are at Page 9

1. **Audit Charter**

   (a) Has your Audit Charter been reviewed in the past 12 months?
       (Refer to paragraph 1.4A of IDAC Paper No. 25 'Quality
       Assurance for Internal Audit')
       Yes ☐ No ☐

   (b) Has it been necessary to make changes to the Audit Charter in
       the past 12 months?
       Yes ☐ No ☐

       If so, please provide a short explanation.

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

   (c) The recently released IDAC Paper No. 53 'The Role and Scope of
       Internal Audit' could indicate for some organisations the need
       to review the ambit of the organisation's internal audit
       operations. In the light of your initial examination of the
       paper, please indicate which of the following applies:-

       (i)   some changes may be desirable   ☐

       (ii) some changes desirable but not possible at this stage of ☐
             development

       (iii) current role and scope adequate   ☐

       (iv) impact of IDAC 53 not yet considered   ☐

       (v)   other comments ....
             ....
             ....

2. **Nature of Present Activities**

Under this heading the Committee is seeking a broad indication only and
would not expect a detailed analysis to be undertaken.

Please indicate in (a) and (b) the extent to which the internal audits
carried out in 1982 by your organisation were concerned with the
subject-matters and purposes set out below. ("Subject-matters" and
"purposes" are defined in IDAC Paper No. 53)

(a) <u>Subject-matters of audits</u> (please tick the appropriate column)

	Degree of Concentration (Percentages of total audit-time available to the organisation in 1982)				
	0	1-25	26-75	76-99	100
(i) Financial and Accounting					
(ii) Administration & Management					
(iii) Operations and Services					
(iv) ADP Systems and Services-other than in (i), (ii), (iii) or v)					
(v) Other (please specify)....					

(b) <u>Purposes of audits</u> (please tick the appropriate column)

	Never	Sometimes	Often	Always
(i) Integrity of information				
(ii) Compliance with laws, policies, directives				
(iii) Economy of use of resources				
(iv) Efficiency in use of Resources				
(v) Effectiveness				
(vi) Diagnosis of problems				
(vii) Other aims (please specify)				

(c) <u>Size of Audits</u>   No.

Small audits (up to 1 man week)   _____

Medium audits (1 to 5 man weeks)   _____

Large audits (over 5 man weeks)   _____

Total: _____

(d) <u>Research and Development</u>

(Time devoted to research and development
as % of total audit time in 1982)   _____%

3. <u>ADP Auditing</u>

The questions and terms used under this heading are based on the discussion in IDAC Paper No. 31 "The Development of Departmental Arrangements for ADP Auditing". The Committee appreciates that responses here could reflect the degree of penetration of ADP within the organisation and the organisation's position vis-a-vis the ADP life cycle.

Organisations with no involvement in ADP should indicate "No involvement" in response to Question 3(a). Such organisations may use their discretion in answering questions 3(b) to 3(f).

(a) How significant to your organisation is   Very
    the audit of ADP systems?   Significant ☐

                                              Significant ☐

                                              Not
                                              Significant ☐

                                              No
                                              Involvement ☐

(b) Has your organisation assessed the nature
    and extent of the ADP audit tasks to be
    undertaken within the foreseeable future?   YES ☐ NO ☐

(c) Has your organisation arranged to secure
    or train the personnel required for the
    ADP audit tasks identified?   YES ☐ NO ☐

(d) By what year do you expect to achieve an
    adequate ADP audit capability? (Consider
    organisation, staffing and competence
    levels achievable through formal training
    and on-the-job experience)   _____

(e) What factors may accelerate or retard
    completion of this plan?

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

(f) Please estimate (in broad terms and as a proportion of time
    spent on ADP related audits) the extent to which audits in
    1982 were directed towards:

    (i)   audit of the computer centre   _____

    (ii) audit of systems under development   _____

    (iii) audit of technical services
          (communications, data base, and software
          systems)   _____

(iv) audit research and development   —

(v) audit of continuing systems   —

(vi) audit involvement in hardware/software
acquisitions   —

                                  100%

4. Management Support

(a) (i) Does your organisation have an Audit Committee or other
committee with similar responsibilities   YES ☐ NO ☐

(ii) If 'Yes' how often does it meet   Yearly ☐

                                      Half-yearly ☐

                                      Quarterly ☐

(b) Is your audit/management committee responsible for following
up audit recommendations?   YES ☐ NO ☐

(c) Does your organisation take steps to explain to line
management the role of internal audit   YES ☐ NO ☐

5. Status of Internal Audit Unit

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

Audit Committee ☐   Division Head ☐

Permanent Head ☐   Branch Head ☐

Deputy Secretary ☐

(b) Does the Chief Internal Auditor have the right of direct
access to the Permanent Head/Chief Executive?   YES ☐ NO ☐

(c) Are your internal audit resources centrally controlled?
                                           YES ☐ NO ☐

6. Number of Internal Audit Staff   31.12.81   30.11.82

(a) Internal audit establishment   ——   ——

(b) Actual staff   ——   ——

(c) Please indicate the reasons for any significant differences
between the actual and the establishment figures:
....
....
....
....

(d) Please complete the table at <u>Attachment 1</u> to reflect
establishment and actual staff as at 30.11.82.

7. Staff Turnover

(a) Please furnish the following details of <u>departures</u> from your
Internal Audit Unit in 1982:

(i) Number of total departures   ——

(ii) Number who took up audit duties
elsewhere in the APS   ——

(iii) Number who took up non-audit duties elsewhere
in the APS (including some department)   ——

(iv) Number who took up audit duties outside
the APS   ——

(b) Please furnish the following details of <u>arrivals</u> to your
Internal Audit Unit in 1982:

(i) Number of total arrivals   ——

(ii) Number who came from other audit units
in the APS   ——

(iii) Number who came from non-audit duties elsewhere
in the APS (including same department)   ——

(iv) Number who came from audit organisations
outside the APS   ——

8. Qualifications of Audit Staff

What number of internal audit staff as at 30 November 1982:

(a) Have completed bachelor or higher degrees?   ——

(b) Have completed diplomas or secured other
professional qualifications of similar standing?   ——

(c) Are currently undertaking tertiary courses?   ——

9. Training of Staff

(a) Number of current staff who have received
systems-based audit training   ——

(b) Number of current staff who have received
basic ADP audit training (CICA Courses 1 and 2)   ——

10. Resources used for Internal Audit Activities

   (a)   Please indicate with a tick if significant assistance in respect of your organisation's internal audit activities in 1982 was provided by any of the sources listed below:

       •   IDAC including Internal Audit Implementation Group ☐

       •   Private Consultants ☐

       •   Other Departments ☐

       •   The Auditor-General's Office ☐

   (b)   Is your organisation likely to seek help or advice from any of the above sources over the next two years? YES ☐ NO ☐

       If so, please provide brief details:

       ....

       ....

       ....

11. Internal Audit Manual

(See also PSB memorandum 82/575 of 1 November 1982)

   (a)   Has your organisation issued a manual as a guide to staff in audit policies and procedures? YES ☐ NO ☐

       If 'Yes' (i) how often is the manual subject to review? _____

            (ii) do you regard the manual as reflecting current policy and practice? YES ☐ NO ☐

12. Quality Assurance Program

   (a)   Does your organisation have a quality assurance program? YES ☐ NO ☐

   (b)   Have the quality assurance questionnaires provided in IDAC Paper No. 25 (and Training Document No. 9) proved to be useful to your:

       •   Audit Committee YES ☐ NO ☐

       •   Chief Internal Auditor YES ☐ NO ☐

       •   Senior Regional Auditors YES ☐ NO ☐

       •   Internal Audit Field Staff YES ☐ NO ☐

   (c)   If any answer in (b) is 'No' please provide explanatory comment:

       ....

       ....

       ....

   (d)   Are the practices and related questions suggested in IDAC Paper No. 25 'Quality Assurance for Internal Audit' adequate and appropriate YES ☐ NO ☐

       If 'No' please provide explanatory comment.

       ....

       ....

       ....

13. Audit Performance

   (a)   In broad terms what proportion of major audit recommendations made since 1 January 1982 have been:

       •   accepted for implementation ....%

       •   noted for implementation as resources permit ....%

       •   rejected ....%

       •   not yet considered ....%

   (b)   Since 1 January 1982 what were the principal reasons for rejection of audit recommendations?

       ....

       ....

   (c)   Please indicate by a tick the nature of the benefits derived from your organisation's internal audit activities in 1982:

       •   Specific savings/economies ☐

       •   Improved control or procedural arrangements ☐

       •   Identification of significant shortfalls in:

            - compliance ☐
            - efficiency ☐
            - effectiveness ☐

       •   Provision of additional resources ☐

       •   Reallocation of resources ☐

       •   Management reassurance ☐

. *Other (please specify)*

....

....

....

(d) Taking account of both tangible and intangible issues, does your organisation consider that it obtained value for money from its internal audit activities in 1982?

YES ☐ NO ☐

On what basis have you formed this conclusion?

....

....

....

(e) Are you satisfied with:

(i) the progress made in 1982 in the development of your organisation's internal audit activities?

YES ☐ NO ☐

(ii) the standard of performance now being achieved?

YES ☐ NO ☐

If answer to either question is 'No' please comment ....

....

....

14. Audit Planning

(a) How often do you compare your actual audit activities with your audit plans?

Yearly ☐

Half-yearly ☐

Quarterly ☐

(b) Are your audit plans approved by:

(i) Audit Committee YES ☐ NO ☐

(ii) Senior Management YES ☐ NO ☐

(iii) Other (please specify)

....

....

16o

(c) Has there been a reasonable level of achievement against your 1982 audit plans?

YES ☐ NO ☐

Please provide comments on any significant shortfall:

....

....

....

15. *Future Planning and Progress*

Are there any other aspects of the development of internal auditing which you may wish to bring to our notice? (For example, possible improvements in the current remedial programs or in the present JIC/IDAC co-ordinating machinery.)

....

....

....

16. The responses to this questionnaire have been endorsed by

The Permanent Head or his delegate ☐

The Audit Committee ☐

Deputy Secretary ☐

Division Head ☐

Branch Head ☐

Definitions of Terms Used in the Questionnaire

"Total audit time available" means the total time available to the audit unit for audit purposes;

it includes: - research and development

- audit management

- staff on loan to the audit unit.

it excludes: - all leave taken except study leave

- time lost to unfilled positions

- time lost to audit staff on duty outside the

audit unit

- ancillary staff

"Research and development" includes all time allowed for receipt and delivery of training and other forms of personal development.

"Time spent on ADP related audits" includes ADP audit specialists and other audit staff used in conducting such audits.

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DEPARTMENT :

ESTABLISHMENT AND ACTUAL STAFF AS AT 30.11.82

Classification	Location	Total		Central Office		ACT		NSW		VIC		QLD		SA		WA		TAS		NT	
		Actual	Estab	Act	Est	Act	Est	Act	Est	Act	Est	Act	Est	Act	Est	Act	Est	Act	Est	Act	Est
Level 1																					
Class 11																					
CS05																					
Class 10																					
CS04																					
Class 9																					
CS03																					
Class 8																					
Class 7																					
CS02																					
Class 6																					
CS01																					
Class 6																					
Class 5																					
Class 4																					
Class 2/3																					
Base Grade																					
4th Division																					
TOTAL																					

ATTACHMENT 1

ADP AUDIT TRAINING PROGRAM : JANUARY – JUNE 1983

OFFICE OF THE PUBLIC SERVICE BOARD

McLACHLAN OFFICES
National Circuit, Canberra, A.C.T. 2600　　　　　　Telephone 72 3977

Reference:

8 February 1983.

To Chief Internal Auditors and Directors ADP

ADP AUDIT TRAINING PROGRAM

The purpose of this memorandum is to:

- advise details of the proposed program of basic and advanced ADP audit training for the first half of 1983, and

- invite firm nominations for places on the more immediate courses in the program.

Proposed Program

2. The program of courses and workshops proposed for presentation between March and June 1983 is outlined at Attachment A. The program has been endorsed by the Education Committee of IDAC and is based on responses to the training needs survey conducted late last year. The survey indicated strong support for all segments of the proposed program, in particular the computer security course.

3. The survey indicated strong support also for those courses which are packaged for presentation in Canberra and the States (i.e. Internal Audit Practitioner's Course, CICA I and II, ADP concepts and computer security). As a means of meeting the continual demand for these courses the Education Committee has recommended the inclusion in the program of a number of short workshops on guidelines for presenting package courses, to assist departmental officers from central and regional locations in the preparation for and presentation of such courses 'in-house'.

Angeloro one day follow-up workshops

4. You will recall that the fee for the David Angeloro seminars on data base and data communications conducted in November and December last year covered attendance at a one day follow-up work-

shop for each seminar. The purpose of these workshops is to enable a discussion and sharing of experiences with the application of the methodologies put forward by Mr Angeloro in his seminars. The dates set aside for these workshops are March 1 or March 3 for data base and March 2 or March 4 for data communications. The workshops will be held in Training Suite No.2 of the Board's McLachlan Offices. Participants in these seminars are asked to provide telephone advice (062-71 7271) by 22 February 1983 to indicate which of the one day workshops they wish to attend. Names of participants from your organisation are written in the space below.

Courses for which nominations are now sought

6. Nominations are now invited for courses scheduled to be presented before mid-April. A list of these courses together with scheduled dates for presentation, venue and closing date for nominations, is at Attachment B. Please use copies of the enclosed nomination form for each nomination. Telephone advice (062-71 7728) is requested for nominations likely to miss the closing date. There is no charge for any of the courses listed in Attachment B. Brief details of the courses scheduled to mid-April are included in Attachment C.

7. Responses and queries regarding the program of courses may be addressed to Mike Matthew (062-71 7728) Implementation Unit, Public Service Board, Barton ACT.

W. Turk
Chairman
Education Committee
Interdepartmental Advisory Committee
on Internal Audit

ADP Audit Training Program
Proposed Schedule for First Half of 1983

(A)   Canberra

March	1-4	Angeloro 1 day follow-up workshops
March	7-11	(am only) Computer Security
March	8-11	(pm only) ADP Concepts
March	14 and 18	Familiarisation with IBM terminal
March	22-23	General Audit Software Packages (Overview and Audit Analyser)
March	24-25	Package Course Presentation Workshop
March	28	(am only) Audit Implications of the Microcomputer revolution
April	6-8	System Development (a) Bridging am Internal Auditors pm CSOs
April	6-7	Management of the ADP Audit function
April	18-20	Audit Problems of Small Computers
April	26-29	am System Development (b) Case Study pm Test Data Approach
May	16-20	System Development (c) Advanced Seminar
May	30-June 3	Internal Audit Practitioner's Course
June	7-9	Audit Problems of Small Computers (repeat)
June	20-24	Management Improvement Workshop
June	30- July 1	Generalised Audit Software Packages (Overview and STRATA)

(B)   Interstate (scheduled)

		Venue
February 28 to March 4	ADP Concepts	Melbourne (Department of Defence Support
March 7-18	CICA I and CICA II	Melbourne (Department of Social Security
April 5-8	Internal Audit Practitioner's Course	Melbourne (Department of Health)
May 2-13	CICA I and CICA II	Perth (Telecom)
	Package Course Presentation Workshop*	(Sydney (Melbourne

*   Workshops to be conducted by Implementation Unit on dates
to be determined.

Courses Scheduled for Period up to mid-April 1983

Course Title	Dates Scheduled	PSB Venue (TS = Training Suite)	Closing date for Nominations
Computer Security	March 7-11 (am only)	TS No.2	23.2.83
ADP Concepts	March 8-11 (pm only)	TS No.2	23.2.83
Familiarisation with IBM terminal	Two sessions: March 14 or March 18	TS No.1	28.2.83
Generalised Audit Software Packages (Overview and Audit Analyzer)	March 22-23	TS No.1	28.2.83
Package Course Presentation Workshop	March 24-25 (half-day sessions on ADP Concepts, SBA, CICA and Computer Security package courses)	TS No.2	7.3.83
Audit Implications of the Micro computer Revolution (seminar for senior audit personnel)	March 28 (Morning and light luncheon)	TS No.2	7.3.83
Management of the ADP Audit Function	April 6-7	TS No.1	14.3.83
System Development Part (a) Bridging (First presentation)	April 6-8 am Internal Auditors pm CSO's	TS No.2	14.3.83

Brief Description of Segments of ADP Audit Training
Program Scheduled for Six Months Ending June 1983

1. Computer Security

A self-instructional, video-assisted course raising
awareness of a broad range of concepts and techniques
for establishing the security of computer systems,
including administrative controls, physical security,
controls on transactions, data and networks, and
computer fraud.

Last presented :   October/November 1982 (Canberra)

Duration   :   five consecutive half-days

2. ADP Concepts

A self-instructional, video-assisted course providing
a basic understanding of computer concepts, including
computer hardware and software, data management and
the system development process.

Last presented :   September 1982 (Canberra)

Duration   :   four consecutive half-days

3. Familiarisation with Terminal Access to IBM

A practical 'hands on' self-instructional session,
introducing the participant to a terminal and providing
some familiarisation with procedures used for
communication between the terminal and mainframe computer,
data entry and manipulation (edit commands) and other use-
ful commands.

Duration   :   one day

4. Generalised Audit Software Packages (GASP)

NOTE: The purpose of this suite of courses is to give a
         generalised demonstration of the issues and
         practicalities of using GASP's. The courses are
         of value to all auditors and, although the STRATA
         and AUDIT ANALYSER packages are used to illustrate
         the technique and provide some contrast between
         packages, they should not be seen as restricted
         only to auditors in a Burroughs or IBM environment.

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(a)   Overview of GASP and Computer-Aided Audit
      Techniques

      An address and discussion on the use of these
      techniques in the audit of systems

      Last presented :   November 1982 (Canberra)

      Duration   :   half a day

(b)   STRATA

      A practical introduction to the use of packages
      using the STRATA software package and terminals
      linked to a Burroughs computer for the case study.

      Last presented :   October 1982 (Canberra)

      Duration   :   one and a half days

(c)   AUDIT ANALYSER

      A comparative course using the Audit Analyser soft-
      ware package with an IBM linked terminal for the
      case study.

      Last presented :   October 1982 (Canberra)

      Duration   :   one and a half days

5. Package Course Presentation Workshop

A workshop designed to assist departmental officers from
central and regional locations in the preparation and
'in-house' presentation of the basic courses 'ADP Concepts',
'CICA I and II' and 'Internal Audit Practitioners Course',
and the 'Computer Security' course. Approximately half
a day will be spent in guiding participants in the package
presentation of each of the four courses.

Duration :   from one to four half days (nominations
                will be taken for separate segments).

6. Audit Implications of the Microcomputer

A short seminar on the topic based on the series of films
'The Silicon Factor' and to be presented bv Mr M. Harris
of CSA. (refer to SESSION OUTLINE enclosed)

Duration :   half a day

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.../3

7. System Development (a)

* Bridging (for those not familiar with structured techniques)

A video-assisted course providing a basic introduction to the system development process and to structured techniques for systems analysis and design.

Duration : three consecutive half-day sessions

* Bridging (for CSO's lacking internal audit experience)

A video-assisted course providing an introduction to the concept of internal controls for computer-based systems.

Duration : three consecutive half-day sessions

8. Management of the ADP Audit Function

A workshop for Chief Internal Auditors and their ADP Audit Managers to discuss current management problems and potential solutions in ADP auditing.

Duration : two days

9. Audit Problems of Small Computers

A course on audit and control considerations of small computer systems involving a practical introduction to the use of the Apple micro-computer (a case study based on an accounting package).

Duration : three days

10. System Development (b)

Practical Case Study (for those lacking practical experience in systems development)

A series of practical assignments relating to the phases of the systems development life cycle to demonstrate the systems development process and to highlight those areas where internal audit should be involved and the types of controls which would be appropriate.

Duration : four consecutive half-day sessions
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11. Test Data Approach

A short course explaining the use of test data in establishing the accuracy of processing logic and the existence of system controls; involves practical assignments.

Duration : four consecutive half-day sessions

12. System Development (C)

Advanced Seminar for Internal Auditors and CSOs. A course providing participants with the knowledge to build auditability, controllability and efficiency into systems during the development process.

Duration : one week

13. Internal Audit Practitioner's Course

A course providing a basic internal audit methodology and covering planning, control analysis, sampling and reporting.

Duration : one week

14. Management Improvement Workshop

This consultant-led workshop has been presented by the Board over several years for staff with internal consultancy responsibilities. (A copy of the timetable for the 1982 courses is enclosed.) The workshop has been noted by IDAC as a desirable course for those internal auditors involved in audit projects concentrating on efficiency and effectiveness issues.

Last presented : October 1982 (Canberra)

Duration : one week

15. CICA I and II

A video-assisted package on basic audit and control guidelines, covering minimum standards of internal controls for (batch) computer-based systems and techniques for the evaluation of those controls.

Duration : approximately two weeks

The package is available to organisations for in-house presentation at any location.
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The Audit Implications of the
Micro Computer Revolution

There can be little doubt about the enormous impact micro computers are going to have on our society. Their impact is being felt already in government bodies and have generated much interest. An example of this interest was the October monthly meeting of the Australian Society of Accountants (ACT Division) that attracted over 200 attendees.

This seminar looks at the impact of micro computers on society and considers the control and audit implications. It is not intended as a technical session on how to program or audit micro computer systems. Rather it is aimed at senior audit personnel and is intended to provide them with an awareness of this technology and set them thinking about how to cope with it.

The seminar is structured around the highly regarded three-part BBC documentary "The Silicon Factor". Each film demonstrates different applications and developments of micro computers. The films are followed by discussion-based periods on the control and audit implications. The handout material reflects current experiences with micro computers and the growing alarm about them being felt by audit practitioners and being noted in the professional literature. Staff who have attended similar sessions at the Auditor-General's Office may prefer not to attend although the updated material and matters raised during discussions should prove worthwhile.

The session leader will be Michael Harris who is a Senior Member of Consulting Staff with Computer Sciences of Australia (CSA). The session runs for 3½ hours and will commence at 8.45am. Although questions and comments are encouraged throughout the sessions, CSA invites all attendees to stay on afterwards for a light luncheon of sandwiches and tea/coffee to meet Michael and to permit further discussion in an informal environment.

WDScott-Inbucon

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
Introduction. Making change more acceptable. Film 1.	Assignment Control Planning, conducting, and controlling.	Review of processes of motivation. Identifying the best approach for public service work	Personal skills day. Improving use of time. Film 7.	Managing change: Assembling the model for change. Fitting all the bits together to produce a cohesive plan.
Review of management principles. Film 2. Objectives and their importance.	Roles and responsibilities in an assignment. Syndicate work on responsibilities and role definition.	Gaining the co-operation of all involved. Film 4. Full group exercise.	Running effective meetings. Film 8.	Workshop review. An opportunity to discuss any relevant subjects.
Lunch				
Introducing results orientation. - Identifying your sponsor.	Organised fact gathering. Problem identification and definition.	Selling ideas and negotiating for change. Film 5. Mini role play in negotiation.	Implementing change. A ten step plan for introducing change. Film 9.	"Where do we go from here?" Presentations from participants of plans for adoption after the Workshop final film close.
Introduction to case study No. 1. Syndicates Work on Case Study.	System analysis and design. Film 3.		Syndicate Work on developing the plan.	
Dinner				
Case Study Work and presentations of results.	Case Study 2.	Film evening and discussion. The future and the office.	Individual work preparing for presentations.	

Appendix C

IDAC AND IDAC SUB-COMMITTEES:COMPOSITION AS AT 31 DECEMBER 1982

Interdepartmental Advisory Committee (IDAC)

Chairman:	Mr.F.C.Pryor OBE	-	Public Service Board
Alternate Chairman:	Mr.J.W.Foley	-	Public Service Board
Members:	Mr.R.G.Humphry	-	Finance
	Mr.A.Taylor	-	Auditor-General's Office
	Mr.R.Smith	-	Administrative Services
	Mr.R.Richards	-	Defence
	Mr.J.Gibson	-	Foreign Affairs
	Mr.W.Turk	-	Health
	Mr.K.Crawford	-	Industry and Commerce
	Mr.T.Murphy	-	Social Security
	Mr.V.Mitchell	-	Australian Taxation Office
	Mr.D.Steele	-	Transport and Construction
	Mr.J.Cosgrove	-	Veterans' Affairs
Executive Officer:	Mr.J.Russell	-	Public Service Board

Interdepartmental Education Committee

Chairman:
Mr.W.Turk
Assistant Director-General
Internal Audit Branch
Department of Health
PHILLIP   A.C.T.   2606

Interdepartmental Standards Committee

Chairman:
Mr.T.Murphy
Assistant Director-General
Internal Audit Branch
Department of Social Security
PHILLIP   A.C.T   2606

Interdepartmental Committee on Audit Practice

Chairman:
Mr.V.Mitchell
Assistant Commissioner
Internal Audit Branch
Australian Taxation Office
Langton Street
PARKES   A.C.T.   2600

Implementation Unit

Research and administrative support for IDAC is provided by members of
an Implementation Unit located in the Public Service Board's Management
Systems and Efficiency Division. This Unit is headed by an Assistant
Commissioner (Mr.J.Russell) and is responsible for the administration and
day-to-day control of the internal audit and other development programs
supported by the Board. The Program Manager for the internal audit
development program is Mr.John MacGregor. The Unit is staffed partly by
officers of the Board and partly by personnel seconded from departments
to assist in the development and delivery of the program.

Appendix D

PROFESSIONAL BODIES AND OTHER GROUPS INVOLVED IN THE INTERNAL AUDIT DEVELOPMENT PROGRAM

GOVERNMENT INTERNAL AUDIT GROUPS

New South Wales

Chairman:
Mr.G.Hilton,
Government Liaison Committee,
Institute of Internal Auditors,
C/- Director (Internal Audit),
P.O. Box 707,
DARLINGHURST, N.S.W. 2010
Telephone:(02)2662308

Victoria

Convenor:
Mr.B.Jolliff,
Government Internal Audit Group,
C/- Defence Centre,
350 St.Kilda Road,
MELBOURNE VICTORIA 3004
Telephone:(03)6975867

Queensland

Convenor:
Mr.J.Malone,
Government Internal Audit Discussion Group,
C/- Internal Audit Section,
Department of Veterans' Affairs,
Australian Government Centre,
295 Ann Street,
BRISBANE QUEENSLAND 4000
Telephone:(07)2252138

South Australia

Secretary:
Mr.N.P.Williams,
Government Internal Audit Group,
C/- Box 2052 GPO,
ADELAIDE SOUTH AUSTRALIA 5001
Telephone:(08)2280557

Western Australia

Secretary:
Mr.G.E.Scuttenden,
Government Internal Audit Group,
C/- Department of Industry and Commerce,
GPO Box A9,
PERTH WESTERN AUSTRALIA 6001
Telephone:(09)3219761

Tasmania

Convenor:
Mr.B.J.Holloway,
Government Internal Audit Group,
C/- Police Department,
3rd Floor, 80 Elizabeth Street,
HOBART TASMANIA 7000
Telephone:(002)381101

PROFESSIONAL BODIES

Institute of Internal Auditors - Canberra Chapter

Contact: Mr.W.Turk,
Vice-President,
Institute of Internal Auditors,
C/- Department of Health,
PHILLIP   A.C.T. 2606
Telephone:(062)891555

EDP Auditors Association - Sydney Chapter

Contact: Mr.S.Thomas,
Secretary,
EDP Auditors Association,
GPO Box 2930,
SYDNEY   N.S.W. 2001
Telephone:(02)20542 (Ernst & Whinney)

INTERNAL AUDIT GROUPS

ADP Auditors Interest Group Canberra

Chairman: Mr.G.Adcock,
Director,ADP Audit,
Department of Defence,
CP3-5-03,
CAMPBELL Park Offices,
CAMPBELL   A.C.T. 2602
Telephone:(062)664631

Meetings held:

Meeting	Topic/Presenter:	
Foundation meeting 10 June 1982	"Operating Systems Logs"	Mr.N.Maclean, Chief Internal Auditor, Department of Finance,Canberra
7 July 1982	"Current Developments in Audit in Britain,U.S.A. and Canada"	Mr.M.Harris, Auditor-General's Office, Canberra
18 August 1982	"Structured Analysis for Auditors"	Mr.P.Kilvert, ADP Auditor, Telecom Australia,Melbourne
8 September 1982	"The Use of Microcomputers in the Audit Field"	Mr.R.Westphal, Arthur Young & Co.,Sydney
6 October 1982	"The CCAE Graduate Diploma Course in Information Systems"	DR.I.T.Havryskievycz and Mr.D.Stewart, Canberra College of Advanced Education

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INTERNAL AUDIT GROUPS (continued)

ADP Auditors Interest Group Canberra (continued)

Meeting	Topic/Presenter:	
Combined meeting of ADP Interest Group, Institute of Internal Auditors & EDP Auditors' Assn. 23 November 1982	"Control and Audit of Small Computers"	Mr.D.Angeloro, David Angeloro and Associates, Sydney
15 December 1982	"Audit of the ADP Systems Development Process"	Mr.K.Hulme, Arthur Andersen & Co.,Sydney
Combined meeting of ADP Interest Group, Institute of Internal Auditors & EDP Auditors' Assn. 1 March 1983	"Control and Audit Implications of Fourth Generation Languages"	Mr.D.Angeloro, David Angeloro and Associates, Sydney

Research Officers Interest Group Canberra

Chairman: Mr.G.Lillicrap,
Internal Audit Branch,
Australian Bureau of Statistics,
Cameron Offices,
BELCONNEN A.C.T. 2616
Telephone:(062)525561

Meetings held:

Meeting	Topic/Presenter:	
Foundation Meeting 3 June 1982		
8 July 1982	"Structured Analysis for Auditors"	Mr.P.Kilvert, ADP Auditor, Telecom Australia,Melbourne
2 September 1982	"Use of Microcomputers for Audit Planning"	Mr.J.Taylor, Internal Audit Branch, Department of Health,Canberra; Mr.N.McLean, Chief Internal Auditor, Department of Finance,Canberra

Appendix D (cont)

PROFESSIONAL BODIES AND OTHER GROUPS INVOLVED IN THE INTERNAL AUDIT DEVELOPMENT PROGRAM

INTERNAL AUDIT GROUPS (continued)

Research Officers Interest Group Canberra (continued)

9 February 1983 - "Risk Analysis" - Mr.T.Murphy, Assistant Director-General, Internal Audit Branch, Department of Social Security, Canberra

23 March 1983 - "Operational Auditing" - Mr.R.Nollier, Internal Audit Branch, Department of Territories and Local Government, Canberra

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Appendix E

INTERNAL AUDIT DEVELOPMENT PROGRAM
REFERENCES IN PUBLIC SERVICE BOARD AND AUDITOR-GENERAL'S ANNUAL REPORTS

Public Service Board Annual Report

1978/79	pp 12/13
1979/80	pp 18/21
1980/81	pp 16/17
1981/82	pp 35/37

Report of the Auditor-General

30 June 1980	paragraph 2.25.14	pp 156/159
30 June 1981	paragraph 2.23.7	pp 155/165
30 September 1982	paragraph 23.1	pp 84/87

INDEX TO IDAC DOCUMENTS

PAPERS IN THIS SERIES

No.   Subject

9   Viability of Small Internal Audit Units (November 1979)

15   Audit Committees (March 1980)

17   Independence and Internal Audit in the Australian Public Service
     (December '80)

25   Quality Assurance for Internal Audit (Vol I) Quality Assurance
     Checklist Questionnaires (Vol II) (December 1980) (Republished as
     Training Document 9).

31   The Development of Departmental Arrangements for ADP Auditing
     (June 1981)

34   Glossary for Internal Audit (May 1981)

35   Internal Audit in the Australian Public Service - Responses to the
     JIC Questionnaire of December 1980 (May 1981)

42   Working Papers for Internal Audit (April 1982)

46   Planning for Internal Audit (October 1982)

47   Survey of Internal Audit in the Australian Public Service (May 1982)

50   Methodology Report on an ADP Audit in the Department of the Capital
     Territory (June 1982)

51   Methodology Report on an ADP Audit in the Department of Health
     (June 1982)

53   Role and Scope of Internal Audit (October 1982)

54   Index to ADP Audit Material (October 1982)

61   Survey of Internal Audit in the Australian Public Service (May 1983)

TRAINING DOCUMENTS

While prepared for use in training courses these documents are also of
general interest.

1   Working Papers for Internal Audit*

2   Planning for Internal Audit*

3   Statistical Sampling for Internal Audit*

4   Reference Documents

5   The Exit Interview*

6   Reporting Internal Audit*

9   Quality Assurance for Internal Audit

     *   Prepared as part of a teaching module on the subject, and
          generally incorporating case studies, and exercises.

OTHER PAPERS

     Senior Management and Internal Auditing - Summary of an Address
     given by Mr F.C. Pryor OBE (1979)

     Contracting-out of Internal Audit Services - Report by Joint
     Implementation Committee on Internal Audit (1981)

     Strategy for Development of ADP Audit Training (July 1982)

APPENDIX E

IDAC PAPER No: 15

Discussion Paper on
AUDIT COMMITTEES

Prepared by a working party of the
Interdepartmental Advisory Committee on
Internal Audit
Canberra

March, 1980

TABLE OF CONTENTS

QUOTATIONS

Sources quoted in this paper are noted with a system of
brackets, after the particular quotation. The first
number within the brackets refers to the listed item
in the bibliography, in Appendix D; subsequent numbers
refer to pagination.

A - Terms of Reference

1.   'Prepare a discussion paper on <u>audit committees</u>
for consideration within IDAC which:

(a)   discusses the objectives of, and the extent to
       which, audit committees have been accepted overseas
       and in Australia in the private and public sectors

(b)   identifies the advantages and disadvantages which
       might pertain to audit committees established
       within APS departments and statutory authorities;
       and

(c)   provides guidelines on the composition and role
       of audit committees for the consideration of
       departments and authorities contemplating the
       establishment of such committees.'

B - Summary and Recommendations

2.   In overseas countries such as USA and Canada there
has been a substantial increase in recent years in the
number of audit committees operating in the private sector;
a similar trend is now apparent in Australia. These audit
committees are, in effect, sub-committees of the boards of
directors in the companies concerned. An audit committee
in a company usually consists of non-executive directors,
it operates as a check on the company management, and it
advises and reports to the board. The development of this
particular form of organisation has been strongly influenced
by demands that boards of directors should be more accountable
to the investing public. The audit committee is therefore
designed to provide some assurance to the board and to
investors - over and above the formal reports of the
external auditors - that the management is maintaining
adequate financial and other controls.

3.   Audit committees are not as prevalent in the public
sector. Nor are any audit committees comparable to those
in the private sector currently operating in Commonwealth
or State departments in Australia.

4.   While the working party has no wish to minimise the
importance of accountability in the public sector, it is
not satisfied that the conditions giving rise to the
emergence of audit committees in the private sector, or
the assumptions on which they are based, exist similarly
in the public sector.

5.   The working party does see a need, however, for the
establishment in departments of strong departmental
audit committees, chaired by the Permanent Head or his
deputy, to oversee the whole spectrum of internal audit
activity and the review of significant matters arising

from external audits. We believe that the establishment
of a senior management committee of this kind would
significantly assist departments in achieving and maintaining
satisfactory internal audit operations and standards.

6.   As we see it, a departmental audit committee would
be concerned primarily with appraising the planning and
efficacy of the department's internal auditing activities.
It would not be concerned with matters of day-to-day
administration or queries on specific matters. In many
cases, the audit committee would only wish to see summary
copies of internal audit reports, or reports which are the
bases of disagreement between auditors and auditees; in
some cases, the audit committee could require copies of all
internal audit reports to be submitted to it. The audit
committee would be responsible for ensuring that appropriate
follow-up action was taken and that the auditing activities
of the department were being conducted efficiently. The
committee would therefore be particularly concerned with
the internal audit program and with the standards of
internal auditing. It would also be concerned with the
more general questions arising from the department's
relationships with the Auditor-General, the Government and
Parliament on auditing matters. Further details of the
proposed role and composition of departmental audit
committees are given below.

7.   The working party recommends that all Public Service
departments and authorities with internal audit organisations
consider appointing a departmental audit committee along the
lines set out in this paper and in the attached guidelines.

C - GENESIS, DEVELOPMENT AND OBJECTIVES OF AUDIT COMMITTEES

8.   Audit committees first emerged in their present form
in the United States of America, when in 1940, the New York
Securities and Exchange Commission (SEC) recommended their
formation following a corporate scandal in a public company
in New York, in the late thirties. The concern on the part
of the SEC was taken up by the professional accounting
bodies and in July 1967, the American Institute of Certified
Public Accountants recommended the formation of audit
committees in publicly-owned companies. In November, 1968,
the Canadian Institute of Chartered Accountants made
recommendations for legislation which would make such
committees mandatory.

9.   Since then, the increased public concern about the
veracity of reported financial information from public
companies together with judicial decisions holding directors
of such companies responsible for the liabilities resulting
from misleading financial information, have expedited the
formation, and use, of audit committees in corporate
business operations.

10.   Typically, an audit committee in a public company is
a sub-committee of the Board of Directors. The precise
objectives of an audit committee will vary from company to
company, but usually include
.   Evaluation of the standards of internal control
.   · Examination of internal reporting
.   Requirements for internal audit
.   Review of financial statements and
         other financial reports before release
.   Liaison between the external auditors and the
         company
.   Nomination of external auditors
.   Review of reasonableness and adequacy of audit fees.

The objectivity of an audit committee is a prime
consideration and this has been enhanced by appointing
at least a majority of non-executive directors. It is
argued that their legal responsibilities, coupled with
a remoteness from the management and day-to-day running
of an organisation, enable a more objective and intensive
consideration of financial reporting and internal control.

11.   The aim of the audit committee is to ensure that
internal and external financial reporting is appropriate
and that internal and external audit procedures are
effectively carried out. The involvement of audit
committees in the private sector with the external auditors
of the organisation can be extensive, including review of
proposed audit coverage, identifying 'sensitive' areas
deserving particular audit attention, and negotiation of
the related audit fees. In the absence of an audit committee,
such dealings would be between the organisation's management
and the external auditor. In this way, audit committees
may enhance the independence of the external auditor in
relation to public companies.

12.   In 1972, the SEC stated that effective audit
committees could afford 'the greatest possible protection
of investors' (3, p.8) and reaffirmed its support for audit
committees. In 1974, the SEC adopted rule changes requiring
registrants to disclose the names of audit committee members,
or to disclose the fact that no audit committee existed.

All companies listed on the New York Stock Exchange were
required to establish audit committees by June 30, 1978.
Such committees were to be -

> 'comprised solely of directors that are independent
> and free from any relationship that, in the opinion
> of its Board of Directors, would interfere with the
> exercise of independent judgements as a committee
> member' (3, p.8).

13.   The literature indicates that these committees have
been used to

- enhance the independence of public-company auditors,
  both internal and external, and
- provide assurances that their services are used
  effectively;
- aid management in fulfilling its responsibilities
  for financial reporting to the public,
- cope with corporate image problems resulting from
  tarnished credibility in financial reporting
- provide better avenues of communication between
  boards of directors and the internal and external
  auditors, and
- initiate required changes in systems of internal
  control.

14.   Audit Committees have carried out these duties in
pre and post-audit interviews with external auditors, and
exercised close and continuing oversight of internal audit
operations, financial statements, and the adequacy of
internal control systems.

15.   Acceptance of committees in America has been widespread,
and the official pronouncements of accounting bodies, the
New York Stock Exchange, the Conference Board, The American
Society of Corporate Secretaries, and many others have all
endorsed the use of audit committees in public companies
(19, p.2). Surveys of American corporate opinion, such
as that conducted by the American Institute of Certified
Public Accountants, point to their usefulness in the public-
company sector:

> 'The large number of companies that have voluntarily
> formed audit committees and the comments we received
> about the operations of many audit committees are
> evidence that many boards of directors find audit
> committees to be useful ...

the apparent widespread satisfaction with the
performance of audit committees will encourage
more corporations to voluntarily form audit
committees' (28, pp 7 and 4).

16.   Against this it may be said that audit committees
can be a source of conflict and misunderstanding between
management, the committee and the auditors, and can lead
to the undermining of the authority of senior management.
Two particular kinds of problems may be instanced. First,
a committee with ill-defined functions may encroach on
areas that fall exclusively within management's province.
Secondly, senior management may feel that the activities
of the audit committee reflect on its competence or
integrity. The first problem has been met by clearly
defining the functions of the committee; the second by
having management represented at meetings when decisions
affecting management are to be taken.

17.   Expressions of apprehension about audit committees
are varied. 'A company's financial affairs' said the
Chairman of Unilever, 'are the collective responsibility
of the whole Board; they cannot be shrugged off onto a
select few, at least half of whom are not involved in the
day to day running of the company' (19, p.13). This serves
to highlight two points - directors do have significant
legal responsibilities no matter how remote they are from
day to day running of an organisation; and it should not
be envisaged that the members of the audit committee would
shoulder all responsibility - rather, they should work to
the full board and assist it in the fulfilment of its
responsibilities. Also, the Treasurer of Stewart Warner
Corporation, in a letter to the New York Stock Exchange
commented: 'so far as we know, no evidence exists to
support the frequently advanced view that the use of Audit
Committees results in improved financial reporting, better
internal financial controls, and a higher level of investor
confidence in reported financial results'. (19, p.13)   .../10

18.   Similar fears were expressed in England by the
Confederation of British Industry, when, whilst conceding
that 'experiments with audit committees would be valuable',
it was noted that 'where they were set up they should operate
as an integral part of the board's way of conducting its
business, not as a separate or independent supervisory body
which could interfere with the operation of management' (16, p.525).
This observation tends to reinforce the point made in
paragraph 16, above, in that the audit committee's charter
should clearly identify its areas of responsibility and
relationships with the full board and the management of
the organisation.

19.   In Australia, Canada and the United Kingdom, the
acceptance of audit committees is becoming more widespread.
Audit committees are now statutorily required for all public
companies in Canada which have issued securities to the public.
There are presently no legislative or regulatory requirements
for audit committees in Australia, but institutional and
judicial criticism on the adequacy of internal and external
audit in certain public companies in Australia, together
with official encouragement by professional bodies such as
the Australian Society of Accountants, and the Securities
Institute of Australia, is leading to much greater acceptance
of audit committees. A recent survey in Australia indicated
that at least one in four of fifty public companies surveyed
have audit committees (14, p.17). Data from this same
survey further suggest that at least one in two of those
public companies have, or intend to establish, audit
committees.

20.   A comparison of the size, composition, and frequency
of meetings for audit committees in public companies in
Canada, America and Australia is contained in Appendix A.
It will be noted from these data that the average size of

an audit committee is three to four persons, the majority
of whom are, in all cases, external directors. The use of
these external members (non-executive directors) has been
stressed in the literature and, as will have been
noted, is a characteristic of public-company audit committees
in all three countries.

21.   The usefulness of the contribution of non-executive
directors has been emphasised repeatedly in the literature,
where they have been seen as providing critical, creative
and independent thought, as a means of 'ensuring that
possible alternative courses of action are properly debated
and that courses of action are subjected to prior examination
to ensure that the risk is justified' (30, xiii). Public-
company problems in this regard seem to concern the finding
of suitable candidates who would be available to take on
audit committee duties. Although there is no specific area
of background experience which is considered most appropriate
for a potential non-executive director, it has been 'considered
desirable that candidates should be able to show evidence of
a reasonably broad range of industrial, commercial, financial
or other suitable experience at a senior level' (30, xiii).
This has generally meant that the majority of them have been
recruited from the ranks of senior executives already
holding down full-time jobs in other companies.

Overseas Government-Sector Experience with
Audit Committees

22.   Enquiries to the Civil Service Department, in
the United Kingdom, have established that four government
departments have audit committees. These are the Civil
Service Department itself and the Scottish Office, whose
audit committees meet twice a year, and the Departments of
Trade, and Industry. No documentation on the role, method
of operation, or membership of these committees was

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available, though it is known that none of the committees
uses external members. The department noted that the
concept of audit committees has not generated much interest
in the U.K. Civil Service.

23.   In Canada, a few departments, such as Transport
Canada, have audit committees, but no information on their
composition, role or method of operation, was available.
Official Canadian sources (such as the High Commission)
conducted a thorough search of their library, and were
unable to find any material which would have provided
assistance; neither has anything on audit committees been
published in any issues of 'Optimum', the Canadian Journal
of the Bureau of Management Consulting, Supply and Services,
from 1971 to the present. Informal advice from two
Australian Government officers who have worked, on exchange,
in Canadian Goverment Departments, has confirmed that the
use of audit committees in Canada has not been very
extensive. However, the subject is being examined, as
evidenced by the Final Report (March, 1979) of the Canadian
Royal Commission on Financial Management and Accountability
(29, pp 263-5) which recommended that 'audit committees
be formally created in all departments and that they
comprise at least the deputy head [deputy Secretary in
Australia] and two members from the ranks of senior
executives of major corporations and organisations in the
private sector.' (29, p. 265).

24.   In his Annual Report for the year ended 31 March 1978,
the Canadian Auditor-General reported in Chapter 12 on
a recommended approach to comprehensive internal
auditing within government. He recommended, inter alia,
that 'audit groups (within departments) should have the
leadership and support of an audit committee composed of
senior management and suitably qualified persons from

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outside the department to provide additional objectivity. Preferably the deputy head [deputy Secretary in Australia] or a person of equivalent stature from inside or outside the public service should chair the audit committee' He said that 'the committee should provide guidance and support to the audit group by:

. approving [internal] audit plans and programs;
. ensuring that all programs and activities of the department are considered when selecting areas for audit;
. discussing [internal] audit reports and findings and identifying how findings in one area might relate to other areas;
. seeing that corrective or preventive action is taken on audit findings;
. considering matters raised by the Office of the Auditor-General;
. assessing the adequacy of resources for the [internal] audit activity; and
. advising on the appointment of the head and members of the internal audit group.'

Elsewhere in his 1978 Report, the Canadian Auditor-General included comments on internal audit arrangements of a small number of departments. A common feature in most of these departments is the involvement of Deputy Ministers [Permanent Heads in Australia] in top-level oversight of the internal audit function.

25. No information on American Government experience of audit committees was obtainable, either through official sources, or through the literature search.

D - AUDIT COMMITTEES IN THE AUSTRALIAN PUBLIC SERVICE

The Present Situation

26. The present situation is that no audit committees comparable to those in the private sector are currently operating in the public sector in Australia.

27. In the Australian Public Service, one department has an audit committee which has been operating for more than a year, having held nine meetings in the twelve months to September, 1979. This committee has concerned itself primarily with queries raised by the Auditor-General, but its terms of reference also include responsibility for maintaining a general oversight of the department's internal audit activities. A second department was found to have made provision for an audit committee, its proposed role being to consider requests for special audits, or extensions to the scope of internal auditing activities into operational areas, and to make recommendations to the Permanent Head. Another department had prepared an internal audit strategy which envisaged the establishment of an audit committee which is to meet quarterly and concern itself with both internal and external audit matters. Since October 1979, i.e., during the course of the working party's research and discussions, four other departments have indicated that they intend establishing a departmental audit committee. The terms of reference of these committees indicate that they will be concerned primarily with internal audit matters. In some cases, appointments have been made. There are thus (at March 1980), seven Australian Government Departments who have established, or propose to establish, departmental audit committees of one kind or another.

28. Our inquiries in the Northern Territory and in all States indicate that only two State departments (both in South Australia) have made any use of audit committees and in each case their role has been restricted to dealing with

queries from the State Auditor-General on whose initiative
both committees were originally established. One of these
committees was recently disbanded. The other committee is
basically a liaison group comprising three senior managers
and the chief Internal Auditor from the Department and two
senior auditors from the State Auditor-General's Office.

29.   Notwithstanding the absence of audit committees in
departments in the past, a number of departments and
authorities have for many years appointed a senior officer
to consider and co-ordinate both responses to, and action
as a result of, queries by the Auditor-General.

Comparability with the Private Sector

30.   Many of the problems involved in ensuring that the
audit function is carried out efficiently are common to both
the private and the public sector. In both sectors, for
example, there is a need for the organisations concerned to:

  .   maintain appropriate contact with the external
       auditors and ensure that any deficiencies brought
       to notice by the external auditors are appropriately
       dealt with and any other necessary follow-up action
       is taken;

  .   carry out similar activities in respect of the
       administration of the internal audit program;

  .   keep under review the quality of the internal audit
       operations and the adequacy of the organisations's
       internal controls.

31.   For reasons given below there is a strong case, in
both the private and public sectors, for establishing
special machinery, such as an audit committee, to deal with
such matters. This is not to say, however, that audit
committees of the kind which operate in the private sector
can be transplanted into the public sector without some
adaptation. Thus it is important to note that the composition
and modus operandi of audit committees as they have developed

in the private sector have been greatly influenced by the
need for greater public accountability arising from the
respective functions of and relationships between boards of
directors and company managements. In the private sector
both the board of directors and the external auditor are
responsible, separately and in different contexts, to a
common body, the shareholders. The shareholders can dismiss
both the board and the external auditors and therefore have
some measure of control over them. There is no equivalent
in the public sector. As indicated in Section C an audit
committee in a company is normally appointed by the board
of directors, its membership is independent of management
(the members mostly consisting of non-executive directors),
it operates as a check on management, it advises and reports
to the board, and it is designed to provide some assurance
to the board and to investors - over and above the formal
certifications of the directors or the external auditors -
that the management is maintaining adequate financial and
other controls. Much of the driving force for the establish-
ment of such audit committees stems from the fact that boards
of directors are vulnerable and may not be meeting their
legal responsibilities as clarified by decisions handed
down by the courts if they leave such checks entirely to
the external auditors. In this context, audit committees
serve as a source of direct information and advice
concerning the controls being exercised by management.

32.   However, there is no direct equivalence between
the public-company sector, and the government sector in
this field, in that the significant personal liabilities
of directors of public-companies in Australia and the
United States do not have a direct counterpart in the
Australian Government sector. Apart from those public
enterprises which are organised in much the same way as
public companies the situation in the public sector is

very different. Public accountability considerations are, of course, no less important in the public arena but the methods of achieving that accountability need to take account of the way in which public administration is organised as between the Parliament and the Executive. Thus there are already in existence in the public sector a number of review and appraisal bodies carrying out public accountability functions. In this connection the Auditor-General plays a key role in transmitting his report to the Parliament (and informing the public) on the administration of departments. These reports are followed up by the Joint Committee of Public Accounts which also conducts, in its own right, enquiries of a review and appraisal nature. The public review and appraisal process is, of course, an essential feature of the Parliamentary system and a large number of other Parliamentary Committees (such as Estimates Committees) also foster the process of public accountability.

33.   These accountability processes referred to in paragraph 32 are, in a sense, external to the departments concerned. Departmental audit committees, however, would be more internal to an organisation, and it seems appropriate to suggest, before considering the need for such committees in the public sector in the next section of this paper, that they would be supplementary to the public accountability processes identified above by assisting permanent heads in the management of their departments.

34.   A further significant difference arises from the fact that the role adopted by audit committees in the public-company sector in relation to the selection, remuneration and performance of external auditors is not appropriate in the Australian Government Sector.

The Need for Departmental Audit Committees

35.   Nevertheless, we see a need for the establishment of departmental audit committees, particularly in those

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departments and authorities large enough to support a viable internal audit unit. We believe that such a committee can and should play a key role in respect of auditing matters. We believe it should be chaired by the Permanent Head or his deputy. In effect it would be a senior management committee which, subject only to the overall direction of the Permanent Head, would be responsible for the general over-sight of the department's auditing arrangements. It was recommended in the Coopers and Lybrand report that depart-ments should set up audit committees of this kind.

36.   The main argument in favour of setting up such departmental audit committees in addition to the normal administrative arrangements is that a senior committee of this kind should be a more effective means of encouraging and maintaining adequate audit arrangements. Internal auditing is an activity which depends very heavily on the support and guidance of departmental management and this support is more likely to be provided on a regular and continuing basis if the Permanent Head or his deputy can call on the services of a senior management committee which meets regularly and reviews the department's auditing activities and problems in a systematic way. A committee arrangement of this kind also helps to ensure that auditing activities are co-ordinated adequately with other management advisory activities in the department and that the depart-ment's auditing activities (including the standard of its internal auditing) are appraised against the background of the overall aims and policy objectives of the department.

The Role of Departmental Audit Committees

37.   We considered that an important role of a departmental audit committee would be in the improvement and maintenance of standards of performance of internal audit.

38.   This role in relation to internal audit (for which some of the questions in the list in Appendix B, Part A,

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are pertinent) will have the effect of requiring the chief internal auditor to convince the departmental audit committee that a quality assurance program has been developed, and maintained, and that systems are adequate. In some circumstances, departments may wish to consider referring financial statements to the departmental audit committee for review, provided the release of such statements is not thereby delayed. Closer attention by senior departmental officers to the operational aspects of the internal audit unit would, it is felt, lead to improvements in the quality of management in internal audit units. Matters which might be considered by departmental audit committees in relation to operational management aspects are outlined in Appendix B, Part C.

39. We thought that this role in relation to internal audit might include, as a minimum, the following responsibilities :

. agree the strategic audit plan developed by the chief internal auditor

. agree the annual plan

. agree to changes to the two plans on advice from the chief internal auditor

. ensure that the chief internal auditor establishes and maintains a quality assurance program to evaluate the operations of the internal audit function in accordance with Management Standard MS3.*

. receive summary reports from the chief internal auditor covering activities of the Internal Audit Section

. advise on the adequacy of internal controls, and accounting methods

. recommend to the Permanent Head follow-up action on any of the above matters.

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* See the Statement of Interim Internal Auditing Standards, at Attachment A to the Public Service Board Circular 1979/8 of 30 April, 1979.

40. The effect of this role could result in the following improvements for the internal audit unit

. enhanced status and increased independence

. a forum for consideration of audit plans and methodology by senior management

. a forum for discussing chief internal auditors' opinions on the adequacy of financial and other controls, and any other matters.

41. A departmental audit committee should be responsible for ensuring that all queries or other matters raised by the Auditor-General in relation to the department have been dealt with. In this area the committee's role is primarily one of monitoring action on Auditor-General's queries and general liaison with the Auditor-General's Office where necessary. Close liaison will be necessary in relation to overall standards of internal audit performance. Examples of matters which may be considered in consultation with the Auditor-General's Office are detailed in Appendix B, Part B.

Membership of Departmental Audit Committees

42. Members of the departmental audit committees could be drawn from the following positions within the organisation

. the permanent or statutory head

. deputies to the permanent, or statutory head, and

. heads of divisions or branches

though we thought that it should be stressed that we are not recommending that ex-officio status should necessarily be the basis for membership. We thought that attention should be given to the personal qualities required for committee membership. We believe that, carefully chosen, departmental audit committees would provide a useful stimulus to the improvement of both internal audit and management

practices in the public service. All audit committee members, whether internally or externally selected, would need to be independently-minded senior managers, creative and yet rigorous in their thinking, and with a wide range of interests and experience.

43.   This selection task could, perhaps, be made easier if the concept of 'floating-membership' of departmental audit committees is utilised. This suggestion (from the working party) is that membership of audit committees could change, according to the subject matter on the committee's agenda, with some members being co-opted by the Committee as required. This could result in more productive use of the skills and experience of the senior managers who serve on these committees. We noted, however, that adopting the concept of floating-membership would result in audit committees not gaining the benefits arising from continuity of membership.

44.   The working party did not feel that the heavy emphasis in the public-company sector on the need for external members of audit committees was necessary, or desirable, in the Australian public-service environment. The one audit committee which, at the date of writing, has been operating for some time in an Australian government department does not have any external members; nor is it envisaged that external members will be used on any of the audit committees which other Australian government departments have indicated they intend to set up. Whilst the committee which is operating in a South Australian government department does have external members, we considered that since these external members are represent-atives of that State's Auditor-General's Office, and that the role of the committee is limited, as mentioned in paragraph 28, above, to major external audit queries, the committee was not an audit committee as envisaged by the working party, or as discussed in the literature.

However, we considered that there may be advantages in having one external member. This person could contribute independent, critical and creative thought which might question policies being pursued, and ensure that possible alternative courses of action are properly debated.

45.   It will be the case that some public service organisations may not require the comprehensive advisory and review function provided by a separate audit committee, as recommended in this paper. The role of an audit committee may be encompassed by existing management or liaison groups. This latter approach would represent a partial implementation of some of the activities of a departmental audit committee, and as such would provide valuable experience for an organisation in dealing with some of the activities of audit committees. This experience could be invaluable if, at a later stage, the development of financial and audit complexities require the organisation to consider the establishment of an audit committee with the role and responsibilities recommended in this paper.

Role of the Chief Internal Auditor

46.   The successful operation of departmental audit committees will depend in no small measure on the establish-ment and maintenance of close working relationships between the Committee and the chief internal auditor. The setting up of an audit committee should not destroy, rather it should compliment normal working relationships which obtain between the chief internal auditor and the Permanent Head (or his nominee) to whom the chief internal auditor reports. Nor, in our view, would it normally be appropriate for the chief internal auditor to be a member of the audit committee especially if, as we suggest, one of the main tasks of the committee is to appraise and endorse internal audit plans and performance. At the same time it is highly desirable that the chief internal auditor be present at most, if not

all, meetings of the committee; such an arrangement would
help to ensure not only that the committee receives the
full benefit of the auditor's advice and experience, but
also that the chief internal auditor himself is kept
closely informed of the thinking of the higher management
on all major aspects of the department's auditing activities.

E. GUIDELINES

47.   Guidelines on the composition, role and operation
of departmental audit committees are attached in Appendix C.
It may be necessary to modify these in certain circumstances,
to meet the needs of individual organisations.

APPENDIX A

Comparison of Audit Committee Characteristics in Public Companies in Australia and Overseas

	Australia	America	Canada
Size of Audit Committee	2 - 6 Average 3(a)	2 - 9 Average 3.77(b)	Minimum 3(c)
Composition	In most cases, a majority of external directors (a)	All external Directors in 84% of cases (d)	Majority of external directors (c)
Frequency of Meetings	2-12 p.a. Average 4 (a)	Average 4 p.a.(a)	?
Minutes of meetings	Taken at all meetings (a)	usually maintained (a)	?

Sources of data

(a) Christofi (14)

(b) Fried and Schiff (10, p.46)

(c) Statutory, not empirical data

(d) In 1974, 88% of 1,130 companies that replied to a New York Stock Exchange survey said that they had audit committees; 84% of these committees were entirely composed of outside directors.

APPENDIX B

Examples of Questions which Departmental Audit

Committees Might Need to Consider

The following questions are intended as indicative examples only. The audit committee will exercise its own judgment and initiative to pursue lines of enquiry relevant to the operations of the organization. Discussions between the audit committee and the Auditor-General will need to be conducted in the recognition of the particular role and responsibilities of the Auditor-General.

The questions are arranged in three parts: Part A, internal audit matters; Part B, external audit matters; and Part C, operational management aspects.

PART A - INTERNAL AUDIT MATTERS

(It may be convenient for the audit committee to require the chief internal auditor to cover some, or all of the issues canvassed below in a written submission for the audit committee meeting).

1.   On consideration of the initial Strategic Audit Plan

.   What were the planning parameters within which the strategic audit plan was developed?

   -   requirements of the charter
   -   restricted systems and/or locations
   -   over how many years in general are there
           variations in the cycle as between
           various manageable audit tasks.
   -   internal audit resources

.   How were the elements or manageable audit tasks of the strategic audit plan identified?

   -   functional statements for Divisions/Branches/Sections
   -   systems documentation
   -   known soft spots
   -   previous internal and external audit reports
   -   external comments
   -   advice of departmental management

.   Have any significant systems or areas been omitted from the strategic audit plan?

   -   charter constraints
   -   remote localities

.   What was the basis of costing of the strategic audit plan?

   -   audit hours and staff numbers for manageable
       audit task
   -   specialist support staff
   -   travel costs
   -   other costs (ADP support costs, etc.)

.   How were priorities established for placing manageable audit tasks at particular times in the strategic audit plan?

   -   risk analysis
   -   size
   -   special consideration
   -   major changes in departmental organisation/functions
   -   previous internal and external audits
   -   known desires of senior management

2.   In considering regular reviews of the strategic audit plan

.   What changes in planning parameters have occurred since the strategic audit plan was last reviewed by the Committee?

   -   charter
   -   changes in functions
   -   slippage in current annual plan
   -   factors which indicate need for changing
           previous priorities.

.   What are the specific changes, and to what extent are these an extension of the period of the strategic audit plan?

.   Based on experience to date, is there a need to change the requirements or seek additional audit resources?

   -   staff numbers and classification
   -   specialist support staff
   -   travel costs
   -   other resources

3. On initial consideration of Current Annual Plan

.   What proportion of the current audit plan is
    devoted to :

    - discharge of the strategic audit plan
    - audits to monitor manageable audit units
         between major audits in the strategic
         audit plan
    - ad hoc requests for audits and investigations
         by management?

.   Are we currently facing any unsatisfied requests
    for ad hoc audits?

.   What particular constraints on internal audit
    resources are we facing this year?

    - staff shortages/ceilings
    - staff turnover (known or expected)
    - extended leave
    - financial constraints
    - unavailability of ADP support packages

.   What contingency plan is there for that
    part of the current audit plan reserved for ad
    hoc requests if such requests do not eventuate?

.   How are slippages in previous current audit plans
    met in the current audit plan?

    - which previously planned audits are to be
      abandoned and why.
    - Are we vulnerable to an unacceptable degree
      in any such areas
    - Is it possible to catch up on those slippages
      by short term input of additional resources.

4. On (quarterly) review of the current audit plan

.   What is the current position in relation to discharge
    of the current audit plan?

.   What factors have caused slippages?

    - staff shortages
    - lack of audit experience
    - heavier than expected demands for ad hoc audits
    - budget over-runs on particular audits.

.   Why did significant budget over-runs occur?

    - at what stage in the audit was the potential
      over-run   apparent
    - was abandonment of the audit considered at
      that stage
    - could the over-run have been avoided or savings
      made by reporting that preliminary findings
      indicated that an unsatisfactory position
      existed which suggested the need for :

      . management attention
      . use of internal/external consultancy services
      . deferment for inclusion of larger audit
        in revised current audit plan, or strategic
        audit plan.

5. Where the internal audit unit provides audit services
    to other organisations

.   Has Chief Internal Auditor held discussions with those
    organisations on strategic and annual audit plans?

.   Are there any slippages in those plans?

.   Are there changes in the organisations' requirements
    which materially alter the commitment of resources
    by the unit?

.   Are there any management problems associated with
    the arrangements?

6. On accounting and auditing standards

.   Have new or revised accounting or auditing standards
    been announced by the professional or regulatory
    bodies since the last review by the audit committee?

.   To what extent do those changes impinge on the work
    of the internal audit unit or the activities of the
    organisation?

7. On completed audits

.   What significant improvements have been achieved by
    the organisation as a result of audit reviews ?

- What major deficiencies have been identified and is there any outstanding action in respect of them?

- Were there any areas which required systems revisions before appropriate audit tests could be applied?

8. On auditing policy and procedures

- Have audit policy and procedural statements been prepared and circulated as required by interim internal audit MS2?

- When were they last reviewed by the Chief Internal Auditor?

- Are any changes in policy or procedures under consideration?

9. What difficulties have arisen with line management?

- in arranging, planning and conducting audits

- in discussing audit findings

- in resolving differences

- in follow-up on queries and reports.

10. On cost effectiveness and efficiency

- Are there any procedures or policies adversely affecting our expenditures or revenues?

- Are there costs or expenses which are increasing disproportionately?

- Are there operational deficiencies not material for reporting at line management level but worth investigation for cost reduction or revenue improvement purposes?

11. What quality assurance procedures are adopted by the Chief Internal Auditor to meet the requirements of interim internal audit standard MS3?

- review of working papers and reports

- discussions with internal auditors

- discussion with representatives of the Auditor-General's Office

- peer-review arrangements.

12. On internal audit establishment and staff

- Is the present establishment adequate?

- Are lines of control, supervision and direction within the unit operating effectively?

- Is the occupancy rate at a satisfactory level?

- Are there difficulties in recruiting and holding staff?

- Are the staff performing satisfactorily? If not, what remedial action is planned?

- What plans are there for basic training and continuing development of staff? Are these plans adequate to meet the needs of the unit?

PART B. EXTERNAL AUDIT MATTERS

1. Results of recent external audit reports

*   Have management responses to audit comments and queries been satisfactory?

*   Are there any queries for which management responses have not been received?

*   Are there any systems, procedures or other matters within the organisation which are the cause of concern to the Auditor-General's Office?

2. Other external audit aspects

*   Apart from material in recent external audit reports, has any aspect of the organisation's internal audit activities and plans been the subject of recent observations or criticism by the Auditor-General's Office?

*   Has the Auditor-General's Office been active in areas recently covered by internal audit? If so, what were their results and has the work of internal audit been adequately reflected in their queries, comments and reports?

*   Are there any other aspects of the external audit of the organisation's operations which should be taken into account by the Committee and/or discussed with the Auditor-General's Office?

*   Is the organisation facing problems in respect of its internal audit activities which should be brought to the notice of the Auditor-General?

PART C - OPERATIONAL MANAGEMENT ASPECTS

*   Is the internal audit service providing a valuable aid to management?

*   Is there any dissatisfaction with the diligence and tactfulness of the internal auditors, or unwarranted disturbance to the working arrangements in audited areas ?

*   Have the auditors discussed the scope of the audit, audit findings or other matters arising during the audit and provided opportunities to correct imprecise audit conclusions?

*   Has there been any delay in replying to internal or external audit representations? If so what was the reason? Can delays be eliminated?

*   Have the internal or external auditors reported matters which they consider weaknesses and on which no action has been taken by management. What is the reason for this' What action is proposed?

GUIDELINES ON THE COMPOSITION, ROLE AND
OPERATION OF DEPARTMENTAL AUDIT COMMITTEES

Composition

The Departmental Audit Committee should be appointed by
the Permanent Head, and chaired by the Permanent Head, or a
deputy. It should be a small committee of at least three
members, with appropriate skills and status, who are knowledgeable
in departmental operations, conscious of control requirements,
and able to work together to assess information presented and
readily reach decisions on the maintenance and improvement of
the audit function.

Consideration could be given to appointing one member
from outside the department to enhance independence and
objectivity, and co-opting other members, from within the
organisation, such as division heads whose operations are
subject to audit. It is not considered desirable that the
chief internal auditor, or any of his or her staff, should
be members of the committee. The committee may, however, require
the chief internal auditor to be present at most, if not all
committee meetings.

Role

The Committee should be primarily concerned with
appraising the planning and efficacy of the department's
internal auditing activities. In particular, the Committee
should have an executive appraisal role concerning the
standards and effectiveness of internal audit. With
respect to external audit, it should also provide an avenue
of high-level communication between the organisation and the
Auditor-General's Office. To these ends, the Committee should

.   APPRAISE the internal audit function in the light of
    information supplied by senior internal and external
    audit officers, and reports of the Auditor-General

.   EXAMINE strategic and annual audit plans and their
    degree of coverage of departmental activities,
    particularly with a view to avoiding overlap of
    internal audit and other review activities

.   ASSESS the degree of co-operation between internal
    auditors, management advisory services, and
    operational management, and identify reasons for
    delayed or unsatisfactory responses to audit
    representations, or other difficulties

.   REVIEW developments in the field of internal audit,
    and standards issued by accountancy bodies and other
    regulatory authorities, and encourage the application
    of the best technique and highest audit standards,
    and satisfy itself that these are applied

.   REVIEW identified general and specific deficiencies
    in internal controls and any action taken to remedy
    these deficiencies; form an opinion on both the
    deficiencies and the efficacy of any action taken

.   FOSTER an atmosphere which encourages frank discussion
    with auditors and senior management. This could
    include discussions with senior representatives of
    the Auditor-General's Office.

Departments or Authorities which are required to publish
commercial-style annual financial statements may also
wish to give the Committee responsibility for review of

these statements before they are published. Consideration could also be given to utilising the audit committee in a consultative role in the selection of key internal audit staff.

Operation

To adequately fulfil the role recommended in these guidelines, it is considered that the Committee should conduct a minimum of four meetings per year. This could include a separate, annual meeting, with representatives of the Auditor-General. Other meetings could be held prior to the commencement of the audit year on the proposed annual internal audit plan, and at the close of the year. Members should attend meetings personally, and not through proxies.

A record of proceedings should be kept of all meetings. If the Permanent Head does not chair the meeting, a copy should be sent to him, or her.

The Committee should review its objectives from time to time to ensure that they are consistent with the needs of the organisation.

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APPENDIX F

IDAC PAPER No:9

Discussion Paper on the
VIABILITY OF SMALL
INTERNAL AUDIT
UNITS

Prepared by a working party of the
Inter-Departmental Advisory Committee on
Internal Audit
Canberra

30 November 1979

CONTENTS

A - Terms of Reference

1.   'Prepare a discussion paper on the <u>viability</u>
<u>of small internal audit units</u> for consideration within
IDAC which:

(a)   Identifies the difficulties perceived in providing
        an effective internal audit coverage in
        smaller departments and/or at remote localities
        from a department's own staff resources

(b)   suggests the staffing arrangements, and other
        requirements of internal audit groups which would
        be the minimum necessary to provide a viable approach
        to internal audit in such departments and/or
        at such locations;

(c)   suggests (and discusses advantages and
        disadvantages of) alternative arrangements which
        might be considered by departments and
        authorities where the criteria established under
        (b) are not appropriate for adoption by a
        department or authority or at a particular
        location; and

(d)   provides guidelines on audit management matters and
        administrative arrangements which might be
        adopted by organisations where alternatives
        suggested under (c) involve co-operation between
        departments and/or authorities.

        It was understood that ADP auditing is to be the
subject of a separate paper.

B. Summary and Recommendations

2. A telephone survey of Chief Internal Auditors in ten organis-
ations showed that a variety of arrangements were being used to
provide internal audit services, both for these organisations, and
for the various outrider organisations associated with them.
While some of these arrangements appeared to be better than others,
all of them had practical difficulties associated with them in
the provision of internal audit services.

3. Organisations were found to be generally dissatisfied with
the practice of outposting one or two auditors. Loss of
independence, together with the lower quality audits, restricted
career opportunities and low morale were some of the factors
mentioned by the chief internal auditors interviewed. Centralised
arrangements under which auditors travel from a central base to
undertake internal audits at remote outposts were, however,
reported on much more favourably. The working party considered that
larger internal audit groups would be likely to have greater expertise
than smaller internal audit units.

CONCLUSIONS

4. Notwithstanding that the Coopers and Lybrand Report suggested
(para 714) that a minimum size for viable audit unit is five
staff, this working party, considers that, at least initially,
this figure should be set at three positions, on the basis that it
would provide a degree of supervision to more junior staff,
and opportunities for interaction and personal
development within the work unit. It would also allow for a core of
staff remaining, after the losses due to staff turnover, and leave.

5. The working party also concluded that whilst there is no
standard solution to the problem of providing viable audit units
in departments and authorities, there are a number of arrangements
available, which could be workable, providing that

.   audit groups consist of at least three positions

.   where the arrangement selected depends on extensive
     travel, there is adequate recognition that there will be a
     significant priority given to travel funds to permit
     internal auditors to effectively service their state-office,
     country, or overseas commitments, and

.   arrangements between departments (for joint servicing),
     or between departments and authorities, commissions etc
     (for umbrella arrangements) are fully documented to allow
     parties to any agreement to clearly identify their commitments,
     or expected service levels.

RECOMMENDATIONS

6.   The working party recommends that

* organisations should be encouraged to review their audit operations to eliminate non-viable audit units and consolidate audit operations within the framework of an appropriate model.

* organisations use the recommended guidelines as appropriate to their requirements.

* organisations be encouraged, where appropriate, to allocate more funds for domestic and overseas travel by internal auditors.

* small organisations, which cannot obtain the audit coverage they require, be encouraged to consider the alternative arrangements outlined in the report.

(c)   <u>Current Audit Arrangements</u>

7.   A survey of a cross section of nine departments and one authority was conducted to provide factual data, which is summarised   in Appendix A. These data provided an insight into actual experience in providing internal audit, especially to small urban outposts, and remote country outposts. The opinions obtained indicated that none of the arrangements for providing internal audit (referred to hereafter as 'models'), were working satisfactorily. In some cases, this is the fault of the model selected; in other cases, it is because of administrative constraints over which the auditors have no control.

8.   These models are discussed in the following paragraphs. An important background consideration to the discussion below is the development of a service-wide systems-based audit capability. The nature of SBA is such that the 'larger' of the models discussed will make the introduction of this capability easier than the 'smaller' models.

9.   For each major audit project the SBA methodology breaks the audit task into two main phases of activity:

(a) a heavy, front-end activity, involving an analysis of system objectives, controls and general parameters leading to the development of audit objectives and plans for the testing of conclusions reached in this first phase; and

(b) the testing phase.

10.   Given that most systems in the APS environment are centrally developed and maintained and applied (with perhaps minor variations to cater for local factors) in a uniform manner throughout the various offices of the organisation, it follows that an efficient approach to internal auditing would require that the first phase of the audit should be undertaken at a single appropriate location, which need not necessarily be the Central Office of the organisation. The audit papers relating to the first phase, together with plans for the testing phase could then be circulated to other locations for implementation. Logically, the adoption of such strategies requires a centralised audit control to identify audit priorities and to allocate responsibilities between the various groups of auditors.

(i) LONE, OR SMALL OUTPOSTS

11.   Typically, this model involves a number of audit outposts of one, or two staff. They may be located anywhere in Australia. Difficulties experienced by organisations which are using this

model include -

. a tendency for the internal auditor to identify *too*
closely with that part of the organisation in which he
is located

. a tendency for the regional/States management to view
the internal auditor *as part of the general pool of*
staff available for short term transfers to other
areas of the office. (Frequently, because of the
auditors qualifications and audit experience in the
area, he will be the most appropriate person for such
short term transfers)

. the closing off of the option of career advancement
within the internal audit function with the consequent
perception by the auditor that at some point in the
future it will be necessary to seek or accept a position
in another area of the office

. the concern that:

- there will be a loss of independence by the
auditor

- audit reports may lack objectivity; and

- a reduced probability that audit reports or
summaries will reach appropriate higher
levels of internal audit or departmental
management.

. inefficiencies through duplication, inconsistencies
and differing standards in undertaking systems-based
audits in organisations with centrally developed
and maintained systems

. reduced opportunity to discuss audit results and
tentative conclusions with audit peers which
places in jeopardy the auditor's ability to reach
the relevant conclusions

. high staff turnover, leading to high vacancy levels

. poor morale, resulting from isolation
from audit peers, and lack of career opportunities
which reduce the incentive for the individuals
concerned to learn, or apply, new techniques

. possible waste of skilled resources. This results
from two things:

- firstly, auditors spending the greater part of their
time on low-level compliance work, inappropriate to their
classifications. Secondly, and especially in the case
of lone outposted auditors, a higher incidence of
unproductive time, and a tendency to be used for ad hoc
relief work, and

- difficulties in administration, particularly in the review
of audit working papers, selection of staff, maintenance
of a quality assurance program by the Chief Internal
Auditor (Interim standard MS3), and keeping lone outposted
officers up to date on the developments in audit theory,
and departmental policies and practices.

12. The prevalence of this particular model was explained by
some chief internal auditors as arising from constraints on
access to travel funds for auditors.

13. Most of the departments using this model are giving serious
consideration to pulling back lone or small groups of auditors
to either a central office, or state office base, and auditing
from there. There is, however, one department (not included in the
survey) which finds this model satisfactory for its purposes. In
this case, almost all of the audit work involved is compliance
auditing.

14. The advent of systems-based auditing techniques will have the
effect of reducing dependence by departments on this model. In
addition, the classifications required for the positions to attract,
and keep, skilled systems-based auditors will be inappropriate for
full-time lone auditors or small groups of auditors.

15. The advantages that this model offers, in terms of in situ
ad hoc advice when required, and intimate knowledge of local
conditions, are not seen by chief internal auditors in the organis-
ations surveyed as being sufficient to outweigh the heavy disadvant-
ages detailed above. Given that the level of competence and
auditing   knowledge which could reasonably be expected of an
outposted internal auditor is not high, the quality of advice
offered in such situations may be suspect.

(ii)   THE CENTRAL OFFICE BASE

16. This model involves basing all internal auditors in the
central office of an organisation. It is used by a number of depart-
ments to service state offices and remote outposts, including over-
seas posts.

17. Difficulties experienced with this model may be described as
largely administrative constraints. These are

. the difficulties that internal audit groups have in obtaining
the travel allocations necessary for the visits program

required for the effective operation of the model

. remote and country outposts, and outrider organisations which are programmed to be serviced by the audit group may not be accorded the level of service they required. Again, the reason given for this concerns the availability of staff and travel funds

. the classification of lower level audit staff frequently involves recruiting people who are still studying for their qualifications. This places constraints on the chief internal auditor's ability to send staff, when required,

on interstate or country visits. Some organisations have found that such visits must be timed to coincide with semester or term vacations.

. inability or reluctance of some staff to travel. A few organisations have staff who for medical, domestic or compassionate reasons, are unable, or unwilling to travel.

18. However, it is favoured by most of the chief internal auditors contacted. The reasons include -

. better quality audits. This is because it is possible to use specially selected staff, rather than lower classified and less experienced local staff. This point is particularly pertinent to the introduction of systems-based auditing

. improved administration

. greater independence. Related to this is the opinion of some chief internal auditors that the resulting audit reports, or summaries of significant features on those reports, have a better chance of being considered at higher levels of management

. better basis for audit staff to communicate with their audit peers, and learn and apply new techniques

. a better career structure, making it more probable that a department can attract, and promote quality staff

. better utilisation of skilled resources

. better staff morale, for the reasons detailed above.

19. The working party thought that it could not be too strongly emphasised that organisations considering the use of this model should be able to guarantee the significant amount of travel funds which are necessary for its successful operation.

(iii) THE STATE OFFICE BASE

20. This model involves basing internal auditors in the state offices of organisations. These auditors are also used to service country branches within each state. The model is common and lies midway between the small outpost model, and the central office base model. However, it is really only a viable proposition when each state-office unit consists of at least three audit staff, preferably all of different classifications.

21. Difficulties are that

. it is subject to the same constraints that were discussed above in relation to the central-office base model

. only the larger organisations which have a significant state-office presence can justify audit groups of the size recommended.

22. Against these must be balanced the possibility of reduced travel expenditure.

(iv) THE MULTI-BASE MODEL

23. This model consists of two or three bases, which can be the same size, or even larger, than the central office audit unit, which may be one of the bases. Audit coverage is achieved by allocating geographic responsibilities to each base. For example this could involve a base in Melbourne to service Victoria and Tasmania, and a base in Canberra to service all other areas.

24. This model has the advantages and disadvantages, already discussed, of the central base model, or a state-office base model.

25. As with the earlier models, provision of adequate travel funds for the visits programs, and the availability of staff for these programs are significant difficulties.

(v) THE JOINT-SERVICING MODEL

26. Typically, this model involves one-way internal audit servicing arrangements, between the servicing organisation and the serviced organisation, with no formal documentation of the arrangement, or charges made for services rendered. A variety of difficulties were encountered with this model:

- Audits are generally restricted to those places, foreign and domestic, where the servicing organisation also has a presence, and to common service work, and/or work having a direct subject-matter relevance to the auditing organisation's responsibilities.

- the servicing organisation's need for the audit resources is given preference.

- there is the risk that the organisation being serviced will not make the best use of the audit reports provided.

27.   This model, however, provides a valuable internal audit service which the serviced organisation might not otherwise obtain. In addition, the auditors, working in the servicing organisation benefit from being a part of a viable audit unit with a greater variety of work. In spite of the difficulties, mentioned above, this model could be made to work much better than it now does. To assist organisations which propose to use this model, draft guidelines have been provided in Appendix B(1), which will aid the parties involved to identify their commitments or expected service levels.

(vi)   UMBRELLA ARRANGEMENTS

28.   This term is used to describe the arrangement whereby a small Commission, Council or Board is provided with internal audit service by the organisation from which it outrides, or another organisation, willing to provide the service. Typically, no charges are made for the service provided. This model is widely used for servicing Boards, Commissions and Councils etc., but it should be noted that only 24 of the 35 Commissions, Boards and Councils serviced by the ten departments in Appendix A have had an internal audit in the last two years. Leaving aside the department which services 12 small bodies there are 23 small organisations, only 12 of which have had an internal audit within the last two years. Eleven of these small organisations have never had an internal audit. The reasons for this failure largely reflect the difficulties discussed under the joint-servicing model above. An additional difficulty is that the umbrella arrangements are not supported by formal

documentation defining the duties and responsibilities of either party to the agreement with the result that sufficient internal audit staff to do the work has not been provided.

29.   It could well be that many of these small bodies have simply decided that they do not need internal audit. It is, of course, one option not to conduct an internal audit at all. External audit may be all that is required. This option should remain.

30.   However, the umbrella arrangements could be made to function more effectively, if the guidelines recommended in Appendix B(1) are used. . It is worth noting that the impact of Audit Committees (if introduced) in departments and authorities may be a continuing check on the adequacy of the joint-servicing or umbrella arrangements, in which they would have an ongoing interest. In addition, the increased use and importance of strategic internal audit planning in organisations will also have a beneficial effect on the operation of these models through the emphasis on developing, agreeing, implementing and continuously reviewing, audit plans.

D.   Charging for Audit Services

31.   The view of the Department of Finance on the subject of charging for services rendered is contained in Appendix D.

E.   Suggested Staffing Arrangements

32.   Suggestions for a minimum number of staff for a viable audit unit must take account of a variety of factors including

- the opportunities for interaction and personal development of staff within the work unit

- the incidence of time lost by lower-level auditors through study leave, examinations, etc.

- provision for recreation, and sick leave,

- staff turnover and consequent vacancy levels

- a structure for the unit which will provide promotional opportunities.

33.   The suggested viable size of an internal audit unit outposted from a central office audit unit under the direction of a chief internal auditor is seen as three positions. This suggestion applies to all the models discussed. In this regard, it should be noted that it is very rare for other management advisory personnel such as Methods Officers, to be outposted

in very small groups, or alone. The working party noted that Coopers and Lybrand recommend five staff as the minimum for viability (though no basis was given for this figure). However, three positions have been recommended as a minimum in order to take account of the following factors

- current vacancy levels of 13.6% (May 1979 -see Appendix A)

- many lower-classified internal auditors require study leave to obtain their qualifications (for which 5 hours/week, or 13.6% of available hours, is provided)

- normal recreation and sick-leave requirements.

34.   These factors reduce the effective staffing level to approximately two (the minimum for any interaction), whilst at the same time allowing the basis of a career structure, assuming that the three positions are of different classification. The three positions recommended should be regarded as a minimum for viability, as they allow the basis for a career structure. A larger number, if justified, would enhance the opportunities for interaction and career development.

35.   The working party is strongly of the view that organisations should not consider outposting lone auditors, or auditors in groups of two. Those organisations which have fewer than three auditors based at any location should consider the alternatives discussed in this paper. It should also be noted that in particular situations there may be circumstances in which relevant factors may require more than three positions for viability.

F.   Other Alternative Audit Arrangements

  (i)   PART-TIME STAFF

36.   Two possible approaches are

- staff employed on audit duties for fewer hours than the standard working week - though serving continually

- staff who do work on audit duties for, say, only 3 or 6 months per year, but work on other duties the rest of the time.

37.   An example of the first approach is the integration of the internal audit function with another management advisory service activity. This was referred to in the Coopers and Lybrand Report, and the Joint Public Service Board, W.D. Scott Discussion Paper on Management Advisory Services which was circulated to all Permanent Heads (and Statutory Office holders with powers of Permanent Head) for comment. Both of these discussed the similarities between internal audit, and management consultancy work (especially in relation to systems) and the benefits of closer cooperation between the two areas. One of the organizations surveyed has adopted this approach, with a combined internal audit/management consultancy unit. An advantage is the provision of an internal audit capability for organisations in which none might otherwise be justified. The Discussion Paper on Management Advisory Services noted, however, that 'such integration may lead to a weakening of some features of either or both' (page 77). It is not expected that this approach would be widely adopted, and its efficacy will need to be evaluated in the longer term. A further difficulty is the probability of auditors auditing systems which they themselves have installed as consultants. It could, in some cases, have implications for training requirements.

38.   The second approach is used extensively by one department which selects staff from within the organisation for secondment for periods of six months as internal auditors. The positions vacated by these selected staff are filled in the department's recruitment process. When the term of secondment is over, the selected staff are repositioned in the areas they came from, where staff turnover has ensured that vacancies are available. The part-time auditor positions themselves are provided for only six months of the year, and then withdrawn for the other six months. As with the other models, the department using this model drew attention to the fact that all the eight part-time auditors are invariably studying for their qualifications, and require from 5-8 hours per week in study leave. The department did not experience any other difficulties with the model but the working party felt that there was a possibility that staff engaged on audit functions may compromise their audits by auditing their own work.

  (ii)   PRIVATE CONSULTANCY ARRANGEMENTS

39.   It is possible for departments to engage private contractors to produce internal audit reports. Guidelines for departments and authorities, published in May 1978, and entitled Engagement of Consultants and Contractors for Services, have been provided by the Board. These guidelines are currently being revised, and an updated edition will be released soon. The model has been used by one small council, and a commission. Difficulties include -

- high daily cost

- lack of knowledge of the organisation's, or Public Service procedures

- staff resistance to the private audit

- security problems

- objections from staff associations.

40.   Against this must be balanced the possibility of lower annual cost, as well as the expectation of trained, proficient auditors, and specialist staff, if required. It should also be noted that some of the above difficulties are also common to other alternative models. This model might serve as a temporary solution to the need for good ADP auditors.

(iii) AN AUDIT BUREAU

41.   The Audit Bureau concept, as proposed by Coopers and Lybrand, envisaged using the participating departments' own staff. The concept was almost universally disliked by the Chief Internal Auditors contacted in the survey. However, small organisations, without internal audit staff, might consider an Audit Bureau approach. In this case, alternative staffing arrangements could include permanent audit staff recruited by the Bureau, who could be used in conjunction with audit staff seconded from other public service organisations.

42.   Certainly there appear to be some difficulties with the operation of the concept in Canada, and general comments by the Canadian Royal Commission on Financial Management and Accountability (p. 262) seem to bear this out. These difficulties were not detailed in the Commission's Report. The working party considered that a key factor for the success of an audit bureau (were one established) would be the acceptance of client organisations that internal audit, as a service to management, does not necessarily need the organisation's own internal auditors to conduct the audit. Obviously, a charter and working arrangements of any proposed Audit Bureau would need to guarantee this concept.

43.   The advantages which might accrue from the Bureau approach include -

- better administration

- better quality staff

- better quality audits

- greater independence

- real cross-fertilisation of ideas

- improved probability of audit reports reaching senior management

- better utilisation of skilled resources

- better chance of recruiting skilled ADP auditors

- better staff morale.

44.   The working party noted the Audit Bureau would need to be centralised for these advantages to be realised. The main objections raised in respect of the Bureau concept are that it is seen by most Chief Internal Auditors in departments as another external audit, and that auditors would be unfamiliar with the client's operations. However, some of the staff employed by the Bureau would be on secondment from their department/board/ commission etc. These very staff could initially still audit their own organisations, besides obtaining valuable experience and expertise in working with staff from other organisations. It was also noted that reports from the Director of the Audit Bureau in the Northern Territory indicate that, in his view, the Bureau has provided an excellent working environment for the internal auditors employed. He also considers that because the bureau is centralized, and contains a sizeable staff, of 23 positions, it has been able to

- maintain a comprehensive library on internal audit

- provide internal audit staff with a wide range of departmental audit work

- keep abreast of technical, and other developments, and develop and produce training courses or seminars on these matters, for all internal auditors in Darwin.

- establish a career structure with many and varied opportunities for advancement

- establish a working environment more likely to attract, and keep, good quality staff.

Whilst a survey of clients of the Audit Bureau in the Northern Territory has not been conducted to obtain opinion on the adequacy of the Bureau's arrangements, it is understood that some departments have not been fully satisfied with the new system.

45.   Australian government boards and commissions etc. which do not have their own internal auditors, but do obtain internal audit service, are currently serviced by outside staff, so there would not be any real difference for these organisations in being serviced by a

Bureau, except that they would possibly get a better quality audit.

G. Guidelines on Audit Management for Joint-Servicing, Arrangements

46.   Guidelines on audit management matters and administrative arrangements which might be adopted by organisations wishing to use the auditing services of another public service organisation or Audit Bureau are provided in Appendix B(1).

H. General Guidelines

47.   Appendix B(2) sets out general guidelines for internal audit units.

I. Possible Organisational Arrangements

48.   Examples of how an organisation could use the variety of models discussed in this paper are given in Appendix C (which does not attempt to be exhaustive) include complete, or partial reliance on 'outside' staff for the provision of internal audit services. In presenting these examples, and the variety of 'solutions' offered, the working party felt that organisations should consider the view that internal audit services, like many other management services, do not necessarily require use of an organisation's own staff.

50.   These options allow the organisation being serviced to control the internal audit operation, and provide that the service is performed to the specifications of the organisation requiring the service.

APPENDIX A

NUMBER AND DISPOSITION OF INTERNAL AUDITOR POSITIONS IN SELECTED ORGANIZATIONS

Organizations surveyed for the purposes of this paper
Figures in brackets indicate actual positions filled, as at the end of May, 1979, where this differs from positions available.

Organization	C.O. Canb.Melb.	NSW	VIC	QLD	SA	WA	TAS	NT	Outrider Organisations	Overseas Posts
A	5	1							4	NO
B	(1)2			1	2	2		(6)10	2	YES
C	1								2	NO
D	2								-	YES
E	(4)5								-	NO
F	1 (3)4	4	(2)3	3	(2)3				7	NO
G	(14)16	1	3			(2)3	1		2	YES
H	3	1	3	2					12	NO
I	2	3			1	1		(3)4(ACT)	4	NO
J	2 (4)6		(5)6	3	(3)7(NT (1)3 & NA)	(1)3	-	(4)6(ACT)	2	YES

The above figures represent an average occupancy level of 80.8%. This compared with an occupancy level of 86.4% for all departments as at the end of May, 1979

Cooperative Auditing Arrangements

(a) Joint-Servicing: B's state offices are serviced by X. Some of B's overseas posts are serviced by Y. J's overseas post is serviced by Y.

(b) Umbrella Arrangements: As listed under 'outrider organisations' (11 of these have never had an internal audit)

Other Observations

C's state offices have never had an internal audit
D's overseas post and state offices have never had an internal audit.

GUIDELINES FOR JOINT SERVICING ARRANGEMENTS FOR THE PROVISION OF INTERNAL AUDIT SERVICE

These guidelines are designed for departments, commissions, boards and councils etc. which do not have their own internal audit service, and/or wish to enter into formal arrangements with another Public Service Organisation which is willing to provide such a service. They should be regarded as minimum standard requirements, though individual organisations may find it useful, and necessary, to use them as a basis for negotiating for audit coverage to suit special circumstances.

(a) Audit Management

A. The Audit Representative in the client Department, Commission, Council or Board, etc.will :

(i) be responsible for determining its internal audit requirements through the preparation of an internal audit charter and a strategic audit plan identifying the methodology and scope of audit required for each auditable area.

(ii) Prepare appropriate annual audit plans.
NOTE: Some consultation with the servicing organisation will be necessary in respect of (i) and (ii).

(iii) Liaise with servicing organisation with regard to the availability of adequate audit resources to ensure realistic audit plans can be determined.

(iv) Obtain management approval of the audit plan and advise the servicing organisation accordingly.

(v) In consultation with the servicing organisation, review the forward programme at say, six monthly intervals, modifying it as necessary, and obtaining appropriate approval for any variation.

(vi) Review all audit reports submitted by the servicing organisation, obtain such further information as considered necessary to clarify any matter relating thereto, and initiate any action within the client organisation.

(vii) Liaise with the servicing organisation to consider reasons for any significant variation between standard time set in the plans and the actual time incurred by the review.

(viii) Determine in consultation with the servicing organisations what audit follow-up is necessary and incorporate same in future audit plans.

B. Servicing Organisations

(a) Will be responsible for internal audits in accordance with approved plans provided by the client organisation.

(b) Will ensure adequate resources are available to achieve the client's programme within the agreed timescale.

(c) Will liaise with the client on all aspects associated with programme formulation and provide adequate and timely information on progress.

(d) Act as consultant regarding audit methodology and techniques, but accept the particular approach nominated by the client in the audit plan.

(e) Consult the client before any material deviation is made from an audit plan, or before any particular review is aborted or deferred.

(f) Submit all audit reports in the form provided in the audit plan either through the client's audit representative and/or directly to the appropriate management level in accordance with agreed arrangements.

(g) Provide the client's audit representative with a comparison between the actual time taken and the 'standard' set in the programme for each audit, together with comment regarding any material variation between same.

(h) Upon request provide the client with any necessary supporting data in relation to an audit.

(i) Provide timely information relating to desirable programme changes.

(j) Provide the client at monthly intervals, or at such other intervals, as may be agreed, details of progress against the annual plan.

(k) After consultation with the client, arrange for timely follow-up reviews where appropriate of matters raised in audit reports.

Administration Arrangements

(i) Promulgation of Arrangements

The servicing organisation or client, or both, may promulgate the agreed arrangements in any way they wish.

(ii) Authority

The guidelines agreed between the servicing organisation and client are to be regarded as having contractual force.

(iii) Costs

Present policies in relation to charging for services are given in Appendix D.

(iv) Training Arrangements

Training will be necessary in both the servicing organisation and the client organisation. It is the responsibility of the client to ensure adequate training is provided to ensure the audit staff are adequately informed regarding the organisation's policies, objectives, organisational structure and operating procedures.

The client will need training regarding matters associated with the preparation of audit plans, the preparation and management of the audit programme, and audit techniques and methodology.

(v) Liaison

Regular meetings should be arranged between representatives of the servicing organisation and the client to facilitate management of the audit. Initially, monthly meetings should occur, these should be extended to quarterly intervals at a later stage. Where an Audit Committee operates within the client organisation arrangements need to be made for attendance and/or the provision of necessary information, as required.

Other information arrangements may need to be developed as the occasion arises.

The client's audit representative will be responsible for all matters relating to adequate liaison within his department. The audit manager or his nominee will be the liaison officer for the servicing organisation.

(vi) Security Clearance and Access

In a number of instances it will be necessary for the staff of the servicing organisation to obtain a security clearance before access can be arranged to certain areas. It will be the responsibility of the servicing organisation to submit, in the appropriate form, security clearance applications through the client's audit representative. Such applications are to be processed without delay by the client.

The client will be responsible for the promulgation of the audit arrangement throughout the client organisation and for ensuring full access by the audit staff, to all records and information pertaining to his audit review. It will ensure that full co-operation be given to the auditors.

GUIDELINES FOR INTERNAL AUDIT UNITS

These guidelines are to be regarded as an indication only of the
type of charter which   an   internal audit unit may wish to
develop and promulgate both to describe and promote the
internal audit service.

1.   The Internal Audit Unit is responsible for the
implementation and maintenance of the internal audit function
within the Department, including Regional Offices and other
outposts, as defined and determined by Central Office.

2.   The role of the Internal Audit Unit is that of a specialist
advisor to management, providing information on the adequacy or
otherwise of internal controls within the organisation.

3.   To enable internal audit to provide maximum service to
management, the unit shall work under the following charter:-

(a)   it shall report, on all internal audit matters, to the
      Chief Executive Officer, his delegate, and to such other
      officers as are considered necessary for the proper
      consideration of internal audit findings*

(b)   it shall assist all members of management in the
      effective discharge of their responsibilities by:

    (i)   reviewing and appraising the soundness, adequacy
          and application of internal controls;

   (ii)   assessing the extent of compliance with established
          policies, plans, procedures and instructions;

  (iii)   examining the adequacy of promulgated procedures
          and the efforts made to keep them current;

   (iv)   ascertaining the extent to which government assets
          are safeguarded;

    (v)   maintaining a high standard of personal relation
          with other departmental officers and employees.

(c)   it shall advise on methods considered loose, or capable
      of improvement, together with recommendations to remedy
      faults and prevent their recurrence;

* The Committee is presently working on a discussion paper on Audit
  Committees. These audit committees, if introduced, will in most
  cases require that changes are made to these suggested reporting
  arrangements.

(d)   Officers of the Internal Audit Unit shall have the
      right of access at all times to the books, accounts,
      vouchers, records, correspondence and other documents
      of the Department, including Regional Offices and
      other outposts, which are necessary for the proper
      performance of their duties;

(e)   Officers of the Internal Audit Unit may require any
      officer, or employee to furnish any information and
      explanations deemed necessary for the proper performance
      of their duties;   and

(f)   the unit may conduct special investigations into
      any matter or transaction affecting the interests of
      the Office.

SOME EXAMPLES OF POSSIBLE COMBINATIONS OF ARRANGEMENTS
FOR PROVIDING VIABLE AUDIT

Example A : Large organisation, headquartered in Canberra,
with a large establishment in Melbourne. Small
establishments in other Australian capital cities;
a number of representative offices overseas. Seven
internal audit staff, including the Chief Internal
Auditor.

Some possible arrangements:

1. Central Office base, with all internal audit staff
   based in Canberra, and travelling interstate and
   overseas.

2. Multi-base, with internal audit staff based in both
   Canberra and Melbourne (in roughly equal numbers).
   Some southern State offices serviced from Melbourne;
   others, including overseas posts, serviced from
   Canberra.

3. Multi-base in Canberra and Melbourne but with
   remaining State offices and overseas posts audited
   by *joint-service arrangement with another*
   organisation.

4. Multi-base in Canberra and Melbourne, but with
   remaining State offices serviced by an audit bureau,
   and overseas posts audited by a joint-service
   arrangement operated by a major organisation.

Other variations are possible. Of the four detailed above,
No. 2 offers the attraction of moderate travel expenditure,
combined with two audit groups, both viable, with 3 and 4 staff
each. No. 1 would offer a better career structure, and working
environment for the auditors, but would require increased travel
expenditure.

Example B : Small organisation in Sydney. No other offices
in Australia or overseas. No internal auditors.

Some possible arrangements:

1. Umbrella arrangement with a larger organisation.
   (This will generally be the organisation from
   which the small commission, or council, outrides).

2. Use of an audit bureau (if established).

3. Private consultancy arrangements.

4. Part-time auditors.

Example C : Medium-size organisation, with most staff in Canberra.
Small State offices with one outposted internal
auditor each. No overseas posts, but many country
offices throughout Australia. Twelve internal auditors.

Some possible arrangements:

1. Central-office base, with all internal audit staff based
   in Canberra, and travelling interstate as required.

2. Multi-base, with all internal auditors based in Canberra,
   and another State capital, with geographic responsibility
   for internal audit service divided between them.

3. Central-office base, to service both Canberra, and the
   State capitals (from which all lone auditors would be
   withdrawn). Country outposts serviced by an audit
   bureau.

4. Central-office base to service both Canberra, and all
   country outposts. State offices audited by either
   joint servicing arrangements, or audit bureau, or both.

5. Abolish all internal audit positions, and use an audit
   bureau.

Again, other variations are possible. Of the five detailed above,
No. 2 offers the attraction of moderate travel expenditure,
combined with two audit groups, both viable, with about six staff
each. No. 1 would offer a better career structure, and working
environment for the auditors, but would require increased travel
expenditure.

CROSS-SERVICING ARRANGEMENTS BETWEEN DEPARTMENTS

The Department of Finance has advised that charges should be levied:-

(i)   where either department conducts an activity whose results must or should be reported on a commercial or a quasi-commercial basis - in respect of services connected with that activity;

(ii) when payment is necessary to meet requirements of a particular Government policy e.g. to facilitate cost recovery from the private sector of the cost of services provided; and

(iii) in other cases where the imposition of charges results in a net benefit in terms of economies in resource use outweighing the administrative costs involved.

In the generality of cases involving interdepartmental servicing it is not considered that net economic benefits will accrue from charging, as opposed to not charging.

CHARGING BY AN INTERNAL AUDIT BUREAU

This would be subject to the criteria set out above. Where commercial or government policy considerations do not loom large it is doubtful that particular economic benefits will accrue from charging.

CHARGING STATUTORY AUTHORITIES

All trading authorities serviced in this fashion should be charged in accordance with commercial scales for similar audit work. The question of charging by and between statutory authorities was referred by Cabinet to the Department of Finance for review. This review is still under way.

CONTRACTING OUT OF INTERNAL AUDIT SERVICES

REPORT BY JOINT IMPLEMENTATION COMMITTEE
ON INTERNAL AUDIT

CONTRACTING OUT OF INTERNAL AUDIT SERVICES

REPORT BY JOINT IMPLEMENTATION COMMITTEE
ON INTERNAL AUDIT

CONTENTS

Purpose of Report

This Report to the Public Service Board examines the possibility of *contracting out the internal audit services of departments.* In preparing this Paper the Committee has taken into account the Government's desire to withdraw from functions more appropriately handled by private enterprise and it has also considered the representations received recently from accounting firms seeking to provide departments with *internal audit services.*

General Approach

2.   The first question considered by the Committee was whether there is *any objection in principle to the* contracting out of a department's internal audit function and whether such contracting out would be consistent with the role of internal auditing and the objectives it is designed to achieve.

3.   On one view, the use of outside personnel to carry out internal audit work might be considered to be alien to the whole concept of internal auditing.   Unlike external auditing, internal auditing is an appraisal activity established within an organisation for the purpose of providing the organisation with reviews and evaluations of its activities.[1]   Over the years, successive Auditors-General and the Joint Committee of Public Accounts have stressed that an internally operated and controlled review mechanism such as internal audit is essential for sound management; in this connection the Committee has also pointed to the virtues of an organisation using its own audit staff and rotating such staff between the audit and non-audit areas of the organisation.[2]

4.   Accordingly, a key objective of the internal audit development program has been to encourage departments to develop their internal audit function as an integral part of their management and accountability structure and as a wide-ranging review mechanism.   Internal audit is no longer viewed as an instrument which is necessarily concerned solely or

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[1]   Internal auditing is referred to in these terms by the Institute of Internal Auditors and by the Joint Committee of Public Accounts in its recent report (No. 184) on 'Internal Audit in the Australian Public Service.'

[2]   In its Report No. 184, for example, the Joint Committee of Public Accounts recommended that '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 appropriate level in the internal audit function as part of their overall development.' (para. 2.15)

predominantly with financial systems. It is a review mechanism which may embrace the full range of departmental activities from the viewpoint of efficiency and effectiveness as well as financial regularity.

5. Many departments have recognised the value of developing internal auditing along these lines and have established high level audit committees of First and Second Division officers to direct the use of internal audit resources, determine audit programs and ensure adequate follow-up of audit findings. It is recognised also that the proper performance of the internal audit function calls for the development of close supportive relationships between auditors and senior management especially in situations where the auditing operations go beyond financial compliance auditing and involve judgements on matters which may have sensitive policy or political implications.

6. The Committee therefore believes that, if internal audit is to carry out activities of this kind, responsibility for it must rest with the organisation itself; it needs to involve personnel within the organisation and be carried out in close and active collaboration with departmental management. It would be quite inconsistent with the concept and purpose of internal audit as a wide-ranging and significant internal review mechanism if an organisation were to pass over that function in toto to a private firm or indeed to any other organisation in the private or public sectors.

7. Whilst retaining responsibility for the function within the organisation there might be a case for contracting out particular internal audit tasks or services. This would depend to some extent on the nature of the material to be audited. In some instances it may be inappropriate (or even illegal) for a private firm (or even another organisation in the public sector) to have access to some types of information - for example, Cabinet documents or material bearing on such matters as national security and personal privacy.[3]

8. It would also be necessary to avoid contracting out arrangements which might involve private firms in conflict-of-interest situations or situations which might give rise to problems of public confidence - this could arise, for example, in audits of the regulatory or monitoring agencies where the firm might have other clients whose affairs are affected or governed by the operations of those agencies.

9. Nevertheless, the Committee believes that in some circumstances the use of properly controlled and organised resources from outside an organisation's own establishment can help it to carry out its internal audit operations more efficiently. There are bound to be situations where an organisation would be wise to seek supplementary help of one kind or another - for example, expert help in respect of the auditing of

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3   It is not proposed to attempt to specify in this Paper the various classes of information which might need to be withheld from private firms. In some instances there are specific legislative and other restrictions on the disclosure of confidential Government information and the guidelines relating to 'Exempt Documents' set out in the proposed Freedom of Information legislation could also be relevant. Further guidelines might need to be developed.

advanced ADP systems or of other highly specialised audit activities.

10. The nature of the problems involved in the use of outside personnel for internal audit operations will depend in part on the kind of auditing which is required. Especially in some of the smaller organisations, internal auditing may have very limited objectives - for example, it may be confined to compliance auditing of a kind which does not call for close and continuing over-sight by management or first-hand knowledge of the organisation's policies and objectives. In such cases utilisation of outside personnel should not pose major problems of control.

11. Nevertheless, the Committee believes that wherever outside personnel are being utilised close attention should be given to the relationships with the organisation's internal processes and management. In some cases it may be useful to establish joint audit teams comprised of internal auditors and outside consultants. In all cases - usually per medium of the Chief Internal Auditor - the organisation should retain control over the auditing program and the auditing operations; unless such control is exercised, the arrangements would be indistinguishable from external audit arrangements. The organisation should also be careful not to allow itself to become 'locked in' to particular contractors or avenues of assistance without regard to the results being achieved. Adequate provision should therefore be made for specifying, establishing and monitoring the arrangements and the cost of these functions needs to be taken into account.

Recourse to 'External' Resources

12. It is impracticable to specify all the circumstances in which it might be desirable to make some use of the services of auditors or other experts from another organisation. Much depends on the terms and conditions on which such outside help might be available in either the private or the public sectors. Nevertheless, some examples are given below of circumstances where some recourse to external resources could be helpful from the auditing standpoint.

13. Once such circumstance which is often cited is where the internal audit unit in question is not viable. There is no doubt that the lack of viability of some of the smaller internal audit units is a very real problem and that this situation may call for some form of external help. In some cases - especially where continuing help would be necessary - it may be found that the organisation is simply too small to support an internal audit function; in that event, some other solution such as exclusive reliance on external auditing would need to be explored. This viability problem - together with some proposed solutions - was canvassed in some detail in an IDAC Discussion Paper in November 1979 entitled 'Viability of Small Internal Audit Units'.

14. Other examples of circumstances where recourse to external resources could be helpful from the auditing standpoint include:

.   where a department's own auditors do not possess at a given time the specialist audit skills which may be required - eg. in the ADP field or in commercial accounting;

.   to overcome short-term shortages of internal audit staff due to such factors as staff absences or delays in staffing of positions;

- where a large unforeseen audit is required which is beyond the resources of the department's internal audit organisation; or

- where a special audit or investigation requiring a publicly identifiable independence - possibly with a clear intention to publish the report - is desired.

15. The foregoing examples suggest that the case for using some external resource is likely to be strongest in respect of:

(a) departments or organisations with small audit units;

(b) situations where a temporary injection of specialist or other audit skills may be required.

Sources of Audit Assistance

16. Departments which decide to seek help in carrying out their internal auditing will naturally wish to take into account all relevant sources (in both the public and the private sectors) from which such help might be obtained.

17. Within the public sector it may be possible for an organisation to secure the help it requires from another department. This type of arrangement is not uncommon especially in the case of outrider organisations which turn for such help to their parent departments. This possibility of joint servicing arrangements was discussed in the IDAC Discussion Paper of November 1979 and guidelines to assist departments in establishing appropriate controls over such arrangements were appended to that Paper. As similar controls would be necessary in respect of other forms of contracting out arrangements those guidelines are reproduced in the Attachment to this Report.

18. The JIC and IDAC and the Board's Implementation Unit are available to departments for guidance and advice on their auditing problems but they are not in a position to provide auditing services as such whilst any auditing operations which the Auditor-General undertakes are external rather than internal audits.

19. The Joint Committee of Public Accounts has suggested that an Audit Bureau be established to provide auditing services for those departments which cannot carry out an audit function adequately from their own resources. The Government has not yet responded to this suggestion. One of the difficulties involved in the proposal as formulated by that Committee is that the Bureau's operations would probably be beyond the control of the departments whose affairs were being audited and it could therefore be regarded as simply another external audit body. The JIC believes that, before giving serious thought to the possibility of establishing a new organisation and auditing service of that kind, it would be preferable to seek solutions along the lines canvassed in this Report - ie. by internal audit organisations making more effective use of the services which may be available to them in the public and private sectors.[4]

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4   The Public Accounts Committee's proposal is analysed in more detail in my Paper of 27 October 1981.

20. Within the private sector, interest in the possibility of providing auditing services for departments has been displayed by a number of leading firms of chartered accountants. Indeed, some of them suggest that they could carry out the entire internal audit function on behalf of departments. In the Committee's view, as explained in this Paper, no private firm - or indeed any other outside organisation - is in a position to carry out a fully developed internal audit function on behalf of a department. This relates to the fact that the internal audit function is an integral part of departmental management and may require a wide variety of skills and experience.

21. The Committee considers that departments seeking help in respect of their internal audit activities should not only maintain firm control over the function itself but should also retain full flexibility in choosing and drawing on those external resources which will best meet their needs. Much depends on the kind of professional or technical services required. The nature of these services - and the conditions under which they are to be provided - may differ significantly from the external audit services which accounting firms normally provide.

22. In the representations from accounting firms concerning their ability to carry out internal auditing on behalf of departments particular reference has been made to the various forms of financial compliance auditing and it is in this field that accounting firms have traditionally been strongest. If, on the other hand, a department is concerned primarily with assessing the efficiency and effectiveness of certain operations, there is a range of other specialist firms and agencies which might more appropriately provide the services required.

23. In respect of ADP auditing there is a general shortage of skilled personnel (both in Australia and overseas) and it would be unrealistic to expect accounting firms to be able to transform this situation. The accounting firms may be able, however, to relieve the ADP auditing problems in some departments or organisations. In the Committee's view, solutions to these problems will need to be found primarily by way of the JIC/IDAC programs already embarked upon by the Board to improve the ADP audit capability of the internal audit workforce and thus increase the supply of internal auditors with the necessary skills. As part of these programs the Board's Implementation Unit has recently taken a number of initiatives designed to tap the resources of the private sector in respect of ADP auditing and to draw the attention of departments to ways in which the services of private firms and institutions might be used in conjunction with internal audit resources. Similarly, departments which plan to make use of contracting out arrangements with private firms are encouraged to give other departments the benefit of their experience.

Contractual and Procedural Aspects

24. The Committee assumes that arrangements for the provision of internal audit services by private firms would be subject to the same principles and procedures as apply to the contracting out of other similar services by the Commonwealth and that departments would be expected to pay particular attention to such aspects as:

. The economy, efficiency and effectiveness of any proposed arrangements.

- The purchasing procedures used by the Commonwealth following the invitation of competitive proposals.

- The staffing implications including the extent of staff savings and any consequential reductions in staff ceilings resulting from the use of outside resources. Departments would also need to be aware of possible industrial implications.

25. It has been suggested by some accounting firms that they would be able to supply audit services on terms which would result in significant reductions in Government expenditure. The Committee is not in a position to comment on such claims or to make any general assessment of the extent to which it will be possible to arrange contracts for auditing services from the private sector on terms which will satisfy the relevant criteria. Contractual arrangements may, of course, be examined by the Auditor-General as part of his normal external audit activity; the work carried out by an external contractor may also be investigated and evaluated by the Auditor-General.

Conclusions

26. The Committee's main conclusions may be summarised as follows:

(i) It would be quite inconsistent with the concept and purpose of internal auditing to attempt to pass over the function in toto to the private sector- or indeed to any other organisation in the public sector. Unlike external auditing, internal auditing is an appraisal mechanism established within an organisation and it may be required to review any aspect of departmental operations from the standpoint of reliability, efficiency or effectiveness. It is an integral part of departmental management and departmental personnel need to be closely and actively involved. (Paras. 2 - 6)

(ii) Nevertheless, in some circumstances, the use of properly controlled and organised resources from outside an organisation's own establishment can help to make its internal auditing operations more efficient and effective. (Para. 9)

(iii) In general, the need for some external help is most likely to arise in respect of the smaller internal audit organisations and in situations where a temporary injection of specialist or other audit skills may be required. Examples of situations where some recourse to 'outside' resources might be helpful are given in paragraphs 12 - 15.

(iv) In all such cases appropriate relationships need to be established with the organisation's internal processes and management. (Some detailed guidelines for departments are attached to the Report.) In particular the organisation should retain full control over its auditing program and full responsibility for the auditing operations while all projects contracted out should be oversighted by departmental management - usually by the Chief Internal Auditor. (Para. 11)

(v) In some situations the possibility of making some use of external resources may need to be ruled out. For example:

- Where the auditing would involve access to Government information of a highly sensitive kind. (Para. 7)

- Where private firms would be involved in conflict-of-interest situations. (Para. 8)

- Where first-hand and intimate knowledge of an organisation's activities and policies may be necessary.

(vi) Departments seeking outside help in respect of audit projects should explore all relevant sources in both the public and the private sectors. (Para. 16) They should also retain full flexibility in choosing and drawing on those contracting firms or organisations which best meet their needs. (Para. 21)

(vii) In the Commonwealth Government sector organisations may enter into joint servicing arrangements with other departments. (Para. 17) Organisations may also seek advice on their auditing problems from the JIC/IDAC and the Board's Implementation Unit. (Para. 18) The Joint Committee of Public Accounts has proposed that an Audit Bureau be established to provide 'internal' auditing services but this proposal involves some difficulties and is unlikely to lead to the early availability of further audit services. (para. 19)

(viii) In the private sector, a number of leading firms of public accountants have displayed interest in carrying out auditing services for departments. Other sources of professional and technical advice in the private sector may also be relevant. (Paras. 20 - 23)

(ix) The contracting out of internal audit projects would need to be subject to the same principles and procedures as apply to the contracting out of other similar services. Departments should pay particular attention to the economy, efficiency and effectiveness of such arrangements. All contractual arrangements (including the work carried out by contractors) may be subject to investigation and evaluation by the Auditor-General. (Paras. 24 - 25)

F.C. Pryor
Chairman
Joint Implementation Committee
on Internal Audit
18 December 1981

ATTACHMENT

GUIDELINES FOR JOINT SERVICING ARRANGEMENTS FOR
THE PROVISION OF INTERNAL AUDIT SERVICE (1)

These guidelines are designed for departments, commissions, boards and councils, etc. which do not have their own internal audit service, and/or wish to enter into formal arrangements with another Public Service Organisation which is willing to provide such a service. They should be regarded as minimum standard requirements, though individual organisations may find it useful, and necessary, to use them as a basis for negotiating for audit coverage to suit special circumstances.

(a) Audit Management

A. The Audit Representative in the client Department, Commission, Council or Board, etc. will:

(i) be responsible for determining its internal audit requirements through the preparation of an internal audit charter and a strategic audit plan identifying the methodology and scope of audit required for each auditable area.

(ii) Prepare appropriate annual audit plans.
NOTE: Some consultation with the servicing organisation will be necessary in respect of (i) and (ii).

(iii) Liaise with servicing organisation with regard to the availability of adequate audit resources to ensure realistic audit plans can be determined.

(iv) Obtain management approval of the audit plan and advise the servicing organisation accordingly.

(v) In consultation with the servicing organisation, review the forward program at say, six monthly intervals, modifying it as necessary, and obtaining appropriate approval for any variation.

(vi) Review all audit reports submitted by the servicing organisation, obtain such further information as considered necessary to clarify any matter relating thereto, and initiate any action within the client organisation.

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(1) These guidelines for joint servicing arrangements between Public Service Organisations were circulated in November 1979 as an appendix to the IOAC Discussion Paper on the Viability of Small Internal Audit Units.

(vii) Liaise with the servicing organisation to consider reasons for any significant variation between standard time set in the plans and the actual time incurred by the review.

(viii) Determine in consultation with the servicing organisation what audit follow-up is necessary and incorporate same in future audit plans.

B. Servicing Organisations

(a) Will be responsible for internal audits in accordance with approved plans provided by the client organisation.

(b) Will ensure adequate resources are available to achieve the client's program within the agreed timescale.

(c) Will liaise with the client on all aspects associated with program formulation and provide adequate and timely information on progress.

(d) Act as consultant regarding audit methodology and techniques, but accept the particular approach nominated by the client in the audit plan.

(e) Consult the client before any material deviation is made from an audit plan, or before any particular review is aborted or deferred.

(f) Submit all audit reports in the form provided in the audit plan either through the client's audit representative and/or directly to the appropriate management level in accordance with agreed arrangements.

(g) Provide the client's audit representative with a comparison between the actual time taken and the 'standard' set in the program for each audit, together with comment regarding any material variation between same.

(h) Upon request provide the client with any necessary supporting data in relation to an audit.

(i) Provide timely information relating to desirable program changes.

(j) Provide the client at monthly intervals, or at such other intervals, as may be agreed, details of progress against the annual plan.

(k) After consultation with the client, arrange for timely follow-up reviews where appropriate of matters raised in audit reports.

Administration Arrangements

(i) Promulgation of Arrangements

The servicing organisation or client, or both, may promulgate the agreed arrangements in any way they wish.

(ii) Authority

The guidelines agreed between the servicing organisation and client are to be regarded as having contractual force.

(iii) Costs

Present policies in relation to charging for services are to be followed.

(iv) Training Arrangements

Training will be necessary in both the servicing organisation and the client organisation. It is the responsibility of the client to ensure adequate training is provided to ensure the audit staff are adequately informed regarding the organisation's policies, objectives, organisational structure and operating procedures. The client will need training regarding matters associated with the preparation of audit plans, the preparation and management of the audit program, and audit techniques and methodology.

(v) Liaison

Regular meetings should be arranged between representatives of the servicing organisation and the client to facilitate management of the audit. Initially, monthly meetings should occur, these should be extended to quarterly intervals at a later stage. Where an Audit Committee operates within the client organisation arrangements need to be made for attendance and/or the provision of necessary information, as required.

Other information arrangements may need to be developed as the occasion arises.

The client's audit representative will be responsible for all matters relating to adequate liaison within his department. The audit manager or his nominee will be the liaison officer for the servicing organisation.

(vi) Security Clearance and Access

In a number of instances it will be necessary for the staff of the servicing organisation to obtain a security clearance before access can be arranged to certain

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areas. It will be the responsibility of the servicing organisation to submit, in the appropriate form, security clearance applications through the client's audit representative. Such applications are to be processed without delay by the client.

The client will be responsible for the promulgation of the audit arrangement throughout the client organisation and for ensuring full access by the audit staff, to all records and information pertaining to his audit review. It will ensure that full co-operation be given to the auditors.

AN INTERNAL AUDIT CONSULTANCY BUREAU

COMMENTS ON PUBLIC ACCOUNTS COMMITTEE PROPOSAL

F.C. Pryor
27 October 1981

CONTENTS

AN INTERNAL AUDIT CONSULTANCY BUREAU

COMMENTS ON PUBLIC ACCOUNTS COMMITTEE PROPOSAL

(I) Nature of the Proposal

In its report No. 184 the PAC recommended that the Public Service
Board reconsider the possibility of establishing an internal audit
consultancy bureau or similar body to promote the internal audit
function and provide certain auditing services to departments. The
Committee suggests that the bureau (or similar body) be attached to
or supported by the Board. Details of the Committee's proposal are
given in Attachment A.

2.   This proposal is similar to a recommendation in the 1977 JMR
report that an Australian Internal Audit Bureau be established to
support an interdepartmental audit committee and provide certain
audit services. The Board found that there was little support for
the proposed auditing service or for the proposed Bureau. It agreed
there was a need to promote the efficient performance of the internal
audit function, it endorsed training and other development programs
and two interdepartmental committees (the JIC and IDAC) were
appointed to implement and facilitate the remedial programs.

3.   The administrative support required by the Board and by the
Interdepartmental Audit Committees is being provided by an
Implementation Unit which was established in MSED to support the
internal audit and other such Service-wide programs; supporting
staff from the departments are also seconded to this Unit from time

to time. Further details of the action taken in respect of the
JMR recommendation are given in Attachment B.

4.   Although the PAC says that it contemplates a small and
highly-specialised consultancy bureau, it proposes a wide range of
functions for it. These functions fall into two distinct
categories, viz:

(a) a central review, research, and training role in
     respect of the internal audit activities of
     departments including:

     . keep under review the state of internal
        audit throughout the Service;

     . maintain a small research capability;

     . develop advanced training programs;

     . advise on performance measures and standards;

(b) the provision of actual auditing services for depart-
     ments which cannot carry out an audit function
     adequately from their own resources. These services
     would comprise:

     . specialised auditing services in respect of
        such matters as ADP auditing, operational
        auditing, and the design of complex ADP systems;

     . non-specialised audit services to smaller
        organisations which cannot establish viable
        internal audit units.

5.   The functions in category (a) are already being carried out
under existing arrangements but the Committee's proposal in (b)
above that departments be provided with actual auditing services by
a new auditing body would represent a substantial departure from
the present situation. Under that proposal, the proposed central
body would have a dual role in that it would not only help

departments to carry out their internal audit function but would also itself become an auditing body and carry out various auditing functions for them. Before turning to the ramifications of that particular proposal some comments are offered below on the adequacy of the present machinery.

(II) Adequacy of the Existing Machinery

6.   In current circumstances, there can be little argument concerning the need for some form of central machinery to promote the development of the internal audit function in the Service.

7.   In the light of experience to date it does seem fair to say that the present machinery has proved to be well suited to the purposes for which it was established. In this connection significant contributing factors include:

  . With the Board as the 'parent' body it has been in a unique position to provide strong leadership and support for the programs and to take appropriate action in respect of departmental establishments.

  . IDAC has played an important role in promoting inter-departmental collaboration, in mobilising support for the programs, and in developing and disseminating views and ideas on internal audit problems. (One result of this latter activity is that the Board has not become closely or directly involved in internal audit standards and methodologies.)

  . The other important factor has been the research and administrative support provided by the Board's own staff and the availability of the Board's Implementation Unit as a base for officers seconded from the departments.

8.   The present arrangements were instituted as part of an implementation process rather than as a long-term or permanent arrangement. With continued improvement in the way in which the

internal auditing function is carried out the need for some centrally-organised training efforts - for example, in respect of systems-based auditing - can be expected to diminish or disappear. On the other hand, more efforts may be required for a time in other directions. This is illustrated at the moment by the action being taken to intensify our training efforts in respect of ADP auditing; special efforts to improve internal auditing in other areas (e.g., in efficiency auditing) may also prove to be desirable.

9.   It should be emphasised, however, that the present arrangements are designed essentially to meet a short-term situation - a situation where, for various reasons, departments need some help and encouragement in developing their internal audit activities and in carrying out this function more efficiently. It follows that the Board cannot be expected to continue to participate indefinitely in such arrangements or continue to provide substantial resources for this project. It is true that, apart from its general interest in this Service-wide function, the Board has a lively interest in some aspects of auditing (such as efficiency auditing and perhaps ADP auditing). But internal auditing is simply one of a number of departmental functions which, from time to time, may merit Board assistance and encouragement and the establishment of special inter-departmental machinery to carry out remedial programs.

10.   When the time comes for the Board to reduce its involvement in internal audit matters and to taper off the internal audit programs, departments may feel that some elements of the present machinery - such as IDAC - should still be preserved. It is to be

hoped that the Institute of Internal Auditors and the Government Internal Audit groups (which we have been encouraging) will also play a more active and continuing role in respect of internal audit matters. At this stage, however, it does not seem necessary to canvass such possibilities in any detail. As we are still in the midst of implementing the remedial programs the immediate question is whether the present machinery is adequate for that purpose. For reasons given above, it seems reasonable to conclude that the present arrangements are working well and that, for purposes of meeting our current objectives, the existing machinery is appropriate.

(III) A New Auditing Service

11.   It is clear that the PAC proposal to establish a more formal and distinctive form of internal auditing organisation - such as an Audit Bureau - stems largely from its belief that one of the main functions of such a body should be to provide audit services to departments and authorities which cannot carry out an audit function adequately from their own staff resources.

12.   We can certainly agree with the Committee that the lack of viability of some internal audit organisations is a very real problem.[1] Our experience to date has demonstrated that it is wasteful and inefficient for some organisations - especially the smaller and more scattered organisations - to set up their own internal

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1 This problem - together with some proposed solutions - was
   canvassed in some detail in an IDAC discussion paper of
   November 1979 entitled 'Viability of Small Internal Audit Units'.

audit units and that such organisations therefore need to look elsewhere for even the more basic audit services. Similarly, some internal audit units - particularly the smaller audit units - find it difficult, if not impossible, to provide the more highly-specialised audit services from their own staff resources. They too need to look elsewhere for those audit services.

13.   There is no doubt that a continuing audit service for departments would require some form of permanent machinery. Nor can it be assumed that the present internal audit machinery would provide a suitable framework. If a Bureau were to be established close attention would need to be given to such aspects as the identity of the 'parent' department, the extent to which control over the Bureau's activities should rest with the client departments, and the relationship of the Bureau's work with that carried out by the Auditor-General's Office.

14.   The Committee believes that a central auditing service administered by an Audit Bureau would be an internal rather than an external audit arrangement. This is open to question. It is true that, unlike the usual Audit Office practice, it is not proposed that audit reports emanating from the central body be published or that the central agency would institute audits without the consent of the department. But it is also true that such an arrangement would be very different from a normal internal audit arrangement in that the audits themselves, the timing of the audits, and the personnel carrying out the audits, would not be under the control of the departments whose affairs were being

audited. In short, it would involve recourse to 'external' personnel and resources; as such the Committee's proposal would represent a movement away from internal auditing. It could be regarded as a hybrid arrangement or as a species of external auditing service over which departments exercised some measure of control.

15. The extent to which such arrangements involved a loss of control by departments over their auditing activities would depend on the precise terms of the arrangements negotiated with departments. If, as suggested by the Committee, the Bureau were a high-level and expert body it would doubtless seek to develop its own way of doing things and its own priorities. It is unlikely that it would regard itself as purely and simply a servant of the departments which sought its services; indeed, one of the advantages the PAC sees in its proposal is that a central body which provides such auditing services would be well-placed to determine auditing priorities and promote a more 'rational' use of scarce auditing resources. Departments would probably have less control over the particular auditing arrangement advocated by the Committee than they would enjoy if they hired external auditors from the private sector. It is unlikely that departments would find this particular arrangement acceptable.

(IV) Pros and Cons of a Bureau

16. In the IDAC Paper referred to above[2] it was suggested that, as compared with the operations of small audit units, a Bureau approach might have the following advantages:

. better administration
. better quality staff
. better quality audits
. greater independence
. real cross-fertilisation of ideas
. improved probability of audit reports reaching senior management
. better utilisation of skilled resources

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2 IDAC Discussion Paper on the Viability of Small Internal Audit Units. Pp. 15 - 16.

. better chance of recruiting skilled ADP auditors
. better staff morale.

17. The main problems involved in establishing a hybrid organisation of this nature which cuts across normal departmental lines of responsibility may be summarised as follows:[3]

. Such an organisation would not be at the immediate disposal of Permanent Heads.
. It could come to be regarded as essentially an external organisation and its recommendations might be discounted on the ground that it was not fully in sympathy with the objectives of the department it may be servicing.
. Difficulties could arise in setting work priorities and in deciding which bodies merited assistance by the central agency.
. It would be very difficult to find an appropriate 'parent' department or authority for the Bureau. It would scarcely be appropriate for a central authorty such as the Public Service Board to be involved in providing audit services yet strong 'central' support for such an agency would be most desirable.

18. None of these difficulties could be regarded as insurmountable. Most of them reflect the fact that hybrid arrangements of this kind necessarily involve compromises and conflicts of interests. Nevertheless, it would clearly be no easy task to devise arrangements that are likely to be generally acceptable and to secure administrative and other personnel with the necessary skills and sensitivities. This view is supported by such knowledge as we have of the experience of other Administrations which have

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3 Most of these points were made in the course of an IDAC discussion of the subject on 3 April 1981.

instituted such arrangements.[4]

19. It is clear that this particular form of auditing machinery - which is neither completely internal nor completely external to the participating departments - will not succeed unless there is strong and widespread support for it. The potential recipients of its services - along with the relevant central authorities - need to be satisfied that there is a real need for such a Bureau and that it provides the best solution for their auditing problems. At least at this point of time, however, there is no evidence that the Committee's proposal would attract strong support either from the departments or from the Auditor-General; indeed, the latter's Office has recently opposed the proposal.[5]

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4 The JMR recommendation in favour of an Audit Bureau was heavily influenced by a Canadian decision at that time to set up a Bureau. More recently, the Canadian Royal Commission on Financial Management and Accountability has recommended that the Bureau be abolished; that recommendation has not been implemented but it seems clear that the experiment has not been an unqualified success. Mixed reports have been received concerning the Audit Bureau in the Northern Territory Administration. In Queensland operational auditing is carried out by a relatively small group of highly-skilled auditors attached to a Bureau; details are given in IDAC Paper No. The Queensland experiment is an interesting one but it is not yet fully developed.

5 Attachment C contains the text of the Audit Office memorandum of 6 May 1981 on this matter. The memorandum endorses the criticisms recorded in the IDAC discussion of 3 April 1981 and reproduced in paragraph 17 above.

(V) Better Use of Existing Audit Facilities

20. We can agree with the PAC diagnosis that it is wasteful and inefficient for some organisations to establish their own internal audit units and that some of them are not in a position to provide audit services which are highly-specialised or in short supply. We can also agree that solutions to such problems inevitably involve, in one way or another, recourse to audit personnel and resources external to the organisations concerned. It does not follow, however, that the best solution to such problems is to establish a new audit organisation or an entirely new audit service.

21. Before contemplating the setting up of new machinery the Government would need to be satisfied that the problems cannot be met satisfactorily by the use of existing audit facilities in both the private and public sectors and by effecting, if necessary, some adaptations to existing audit arrangements and procedures. If, for example, serious consideration were to be given to setting up a new auditing service for some departments, it would be necessary to establish that an adequate and economic service could not be provided satisfactorily in other ways such as the hiring of auditors from the private sector, the provision of auditing services by other departments, and the auditing activities of the Auditor-General. The PAC report does not mention - much less pursue - such possibilities.

22. Some attention is already being given to ways in which better use might be made of existing audit facilities. For

example, the Government is currently encouraging the use of private consultants and, in the area of ADP auditing, the Board has taken a number of steps recently to make better use of the skills available in the private sector.[6] IDAC has been active also in encouraging departments to form audit teams - which may include private consultants - to tackle ADP audit projects and in providing guidance to departments concerning ways in which they might provide auditing services for other departments and for their outrider organisations.

23.   If the idea of an Audit Bureau were to be pursued at some time it would also be necessary to give some thought to the kind of auditing service which might be provided. The PAC suggests that the Audit Bureau be staffed by a small pool of highly-skilled personnel. But it would be quite impracticable for a small pool of auditors to be expert in all auditing fields. Whilst there is some commonality in audit skills, there are also substantial differences in the skills required for different kinds of auditing. To build up a large and diverse new body of auditors, however, would clearly be wasteful and involve duplication of the auditing functions of the Auditor-General's Office and of other existing establishments. In general, the problems faced by internal audit organisations are likely to be most acute in respect of the more advanced audit techniques; it is in such areas that they are most likely to need some 'external' (or 'semi-external') support.

6 These steps have included the engagement of private consultants to carry out pilot ADP audits of an advanced nature and the compilation of a register of consultants whose services might be used by departments.

24.   The main point to emphasise, however, is that first priority should be given to the development of efficient internal audit arrangements and to the better use of other existing audit facilities rather than to pursuing, at this stage, the possibility of establishing a new auditing service and new auditing machinery. It should be possible for departments with non-viable internal audit units to solve at least some of their problems by taking up one or more of the options referred to in para. 21.[7] There is often no single or simple answer to the question of what kind of audit or review mechanism would be appropriate. Much depends on particular circumstances and the particular needs of individual organisations. In some circumstances the situation may call for some form of joint audit activity involving both internal and external resources but it does not follow that new auditing machinery is necessary for this purpose.

25.   In many cases, departments may find there is no real alternative to audits by the Auditor-General. In other words, many of the unresolved problems may eventually fall into the lap of the Auditor-General and, under existing arrangements, the responsibility for deciding what auditing action should be taken in these cases would rest with him. From the standpoint of departments, much would then depend on the way in which the Auditor-General viewed their problems and on the extent to which his auditing priorities coincided with their own needs. In this connection some differences in viewpoint between the Auditor-General and departments may

7 These options are canvassed in some detail in the IDAC Paper on the Viability of Small Internal Audit Units.

emerge. It remains to be seen, however, whether such differences
in viewpoint will involve substantial difficulties. More generally,
it remains to be seen whether such difficulties as may remain in
respect of departments' audit problems will prove to be sufficiently
widespread or serious as to warrant serious thought being given to
the possibility of establishing some new form or forms of centrally-
organised audit machinery.

26.   In any event, I believe that under the existing IDAC/
Implementation Unit arrangements we can probably do more than we are
already doing to find solutions to these problems. One forward step
would be to actively encourage departments to inform us if they are
experiencing difficulties in carrying out their internal audit
functions and to enlist our assistance in mobilising the necessary
resources or in helping them to find other solutions to their
problems. We need to continue our efforts via the IDAC machinery to
keep the Service informed of relevant developments, to promote a
much better understanding of audit problems and of possible solutions,
and to provide a forum for the exchange of views. Perhaps we can
also do more in respect of specialist audit services (such as ADP
auditing) to help in the organisation of audit teams and to assist in
the carrying out of pilot audit projects. Apart from the immediate
benefits of such activities to the particular departments involved,

such activities should help to keep the Board - and, indeed, all
interested parties - closely informed of current problems and
current developments and help to focus attention, from time to
time, on ways in which the organisation of auditing in the Service
might best be improved.

(VI)   Summary of Main Points

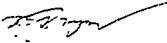27.   The main points in this paper are summarised below:

(i)   The case for establishing a centrally-organised
      audit body such as an Audit Bureau depends, in the first
      instance, on the kind of functions which may be envisaged
      for it.

(ii) Under the Board's leadership the current arrangements have
      taken the form of an interdepartmental committee system
      (on which all the main interested parties are represented)
      together with an Implementation Unit in MSED (to which
      departmental officers are also seconded) to support the
      internal audit development programs. This type of
      machinery - which has relied heavily on co-operative
      effort on the part of all concerned - has proved to be
      well suited to the training and other promotional functions
      which it carries out.

(iii) There would therefore be little or no case for establishing
      a formal audit bureau if it were to do no more than
      carry out these existing functions. Indeed, as the present
      remedial program progresses and the training activities
      taper off, it should be possible to dispense with at least
      some of the present machinery and to look forward to the
      time when the Board will no longer need to play a leading
      role in this matter and devote resources to encouraging
      this particular departmental function.

(iv) The Public Accounts Committee's case for establishing an
      Audit Bureau is based on the view that, in addition to
      carrying out remedial programs to help departments carry
      out their internal audit function, the central body should
      also carry out a continuing audit function for them. This
      view, in turn, is derived from the Committee's diagnosis
      that some departments and organisations cannot carry out an
      audit function adequately from their own staff resources.

(v) We can agree with the Committee's diagnosis that it is wasteful and inefficient for some organisations to establish their own internal audit units and that some internal audit units are not in a position to provide highly-specialised audit services and other audit services in short supply.

(vi) We can also agree that, if a central organisation were to get into the business of providing audit services on a continuing or significant scale, some permanent form of machinery - and one devoted solely to audit matters - would be required. But in that event it should not be assumed that anything like the present arrangements (under which the Board plays a leading role) would be appropriate. On the machinery side it would be necessary to review such aspects as:

. the nature of the auditing services to be provided and whether they should be provided by the one body;

. the identity of the 'parent' authority or authorities. (For example, it would scarcely be appropriate for a central authority such as the Public Service Board to be involved in providing a wide range of audit services.);

. the degree of control to be exercised by the client departments.

(vii) Contrary to the Committee's view, a new auditing service of this kind would represent a movement away from internal auditing in that it would involve recourse to personnel and resources 'external' to the departments or organisations concerned. It could be regarded as a hybrid arrangement or as a species of external auditing service over which the client departments exercised some degree of control.

(viii) The difficulties involved in operating hybrid organisations of this kind which cut across normal departmental lines of responsibility are well known (see for example para. 17). Moreover, attempts by other administrations to set up such Bureaux have not been conspicuously successful although an interesting innovation is taking place in Queensland where a small Bureau with a specialised function has been established recently. Nevertheless, the difficulties in operating a Bureau would be considerable and it is obvious that this form of audit machinery will not succeed unless there is strong and widespread support for it on the part of its potential

clients and the relevant central authorities. At least at this point of time there is no evidence of such support and the Auditor-General's Office is actively opposed to the proposal.

(ix) The Parliamentary Committee appears to assume that the only solution to the problem of non-viable internal audit units is to establish a new audit organisation and a new audit service. Any proposal of this nature needs to be considered in the context of the total audit arrangements for the Service and other options should also be considered including the possibility of making better use of the auditing services which may be available from existing sources such as:

. other departments

. the private sector

. the Auditor-General.

(These other options are referred to in the concluding chapter and canvassed in more detail in the IDAC Paper entitled 'The Viability of Small Internal Audit Units').

(x) The paper concludes by suggesting that:

(a) First priority should be given to the development of efficient internal audit arrangements and to the better use of other existing audit facilities rather than to pursuing, at this stage, the possibility of establishing a new auditing service and new audit machinery.

(b) Adoption of this approach may mean that some of the problems arising from the non-viability of internal audit units will not be capable of easy solutions and some will fall into the lap of the Auditor-General. It remains to be seen, however, whether such difficulties as may remain in respect of departments' audit problems will prove to be sufficiently widespread or serious as to warrant serious thought being given to the possibility of establishing some new form or forms of centrally-organised audit machinery.

(c) Under the existing arrangements we should continue to do all we can to help departments to mobilise the necessary resources and find solutions to

their auditing problems (see para. 26). Action
along these lines should also help to focus
attention on ways in which the organisation of
auditing in the Service might best be improved.

F.C. Pryor
27 October 1981

INTERNAL AUDIT CONSULTANCY BUREAU

Text of PAC Recommendation

'The Public Service Board should review its previous
decisions 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 audit-
  ing 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 perform-
  ance 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.'

AUSTRALIAN INTERNAL AUDIT BUREAU - JMR PROPOSAL

In the JMR report on internal auditing it was recommended that:

'To overcome the problems of lack of co-ordination and standards service-wide, the lack of specialised expertise and the fragmentation of audit resources in the APS, we propose the formation of an inter-departmental audit committee, supported by a permanent secretariat to be known as the Australian Internal Audit Bureau, which would be responsible for the development of a common audit approach, practice standards and the training of all levels of staff. . . . Additionally, the bureau could be extended to provide field internal audit services to smaller departments and remote locations, on request. It could also provide essential specialist audit services, particularly ADP audit, which are not adequately provided by departments.'*

The Public Service Board accepted the need for some form of interdepartmental machinery and the JIC and IDAC were established to implement and facilitate the remedial programs decided upon by the Board. After canvassing the views of Permanent Heads the Board decided that there was little support for the proposal to establish a special bureau designed principally to provide an auditing service for some departments. At the same time the Board undertook that the interdepartmental committees would be provided with supporting staff and an Implementation Unit has been established in MSED to support internal audit and other such programs.

The personnel required for the internal audit programs have been Board officers and officers seconded for relatively short periods from departments; there has also been some use of outside consultants.

* Paragraphs 51 - 52 of Coopers and Lybrand letter of 29 September 1977 to the Public Service Board.

COMMENTS OF AUDITOR-GENERAL'S OFFICE ON PROPOSED AUDIT BUREAU

EXTRACT FROM AUDITOR-GENERAL'S OFFICE MEMORANDUM OF 6 MAY 1981 TO DEPARTMENT OF FINANCE

"The other matter relates to the recommendation at paragraph 8.14 concerning the establishment of an Internal Audit Consultancy Bureau. This recommendation comes close to the recommendation in the Coopers & Lybrand Report of 1977 that an internal audit bureau be set up. In the main, reservations expressed at the IDAC meeting of 3 April 1981 and recorded in the minutes of that meeting are valid. The recommendation would place the Public Service Board or any similar organisation to which the bureau was attached in the position of being, to some extent at least, an external auditor. The Board itself, it is believed, would prefer not to be involved in such an exercise. There also appears to be some internal conflict in the recommendation between having a pool of internal auditors highly skilled in the more specialised audit procedures and techniques and the provision of an internal audit service for small or fragmented bodies as the latter are unlikely to require the service of the former. Either the bureau should be for the purpose of audit or, as explicit in the title, for consultancy advice. The latter would have support from this Office whereas the former would not, for the aforementioned reasons. As a consultancy service a bureau attached to an independent body (other than the Board or another co-ordinating body) could be a useful organisation in the context of the aims expressed in section 8 of the Report."