



This presentation provides an overview of the Victorian Auditor-General's report *Internal Audit Performance*.

## What is internal audit?



An independent, objective assurance and consulting activity

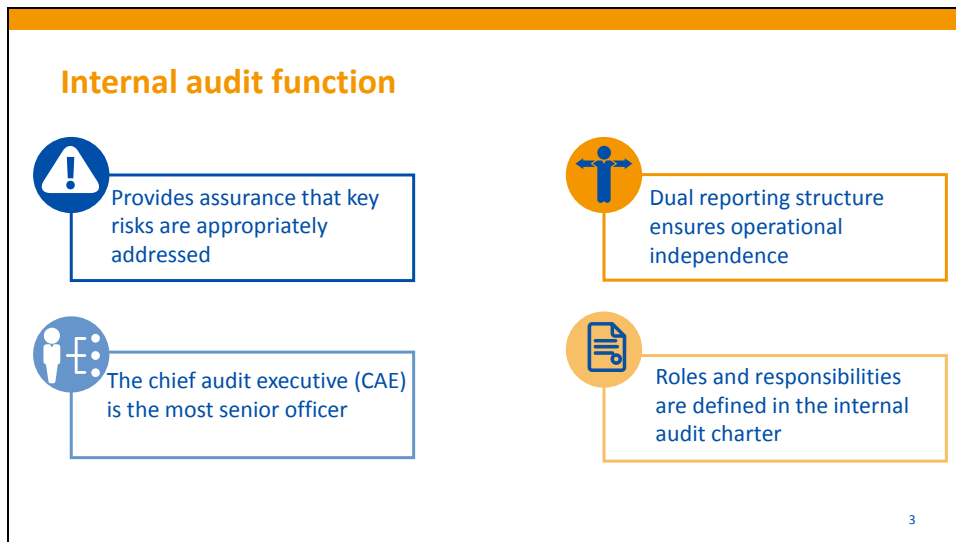


An important part of the internal control framework



A systematic, disciplined approach to evaluating risk management, internal controls and governance processes

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an agency's operations. It is an important part of the internal control framework and helps an agency accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, internal controls and governance processes.



In Victorian Government departments, the internal audit function provides the head of the department—the Secretary—the audit committee and senior executives with assurance that risks to the achievement of department objectives are being appropriately addressed.

To ensure operational independence, internal audit should have a dual reporting structure so that it reports on plans and activities to the audit committee, and reports administratively to the Secretary. The chief audit executive (CAE) is the most senior officer responsible for the internal audit function. Roles and responsibilities are defined in the internal audit charter.

## Key areas examined



- All portfolio departments
- Assessed how well they use their internal audit resources



The role and positioning, independence and objectivity



Alignment of plans with departmental goals and risks



Quality assurance and resourcing



Performance against stakeholder expectations and communication of outcomes and insights

We examined the internal audit functions of all seven portfolio departments and assessed how well they use their resources. We evaluated the role and positioning of the internal audit function, its independence and objectivity, the alignment of internal audit plans with departmental goals and risks, quality assurance and resourcing, performance and the communication of internal audit outcomes and insights.

## Management of internal audit



### Fundamental aspects of internal audit are well managed

- ✓ Charters reflect better practice elements
- ✓ Established dual reporting lines
- ✓ Strong relationships between CAEs and audit committees
- ✗ Positioning of the CAE in some departments diminishes importance of the internal audit function

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Many fundamental aspects of internal audit are well managed.

All departments' internal audit charters, except for that of the Department of Treasury and Finance (DTF), reflect most better practice elements.

All departments have established dual reporting lines for internal audit. Administrative reporting lines, however, do not reflect better practice, with all CAEs reporting to a management delegate instead of reporting directly to the Secretary. Strong working relationships between all CAEs and audit committee chairs are evident.

The current positioning of the CAE in some departments, three to five levels from the Secretary, diminishes the importance of the internal audit function.

## Quality and delivery



- ✓ Extensive engagement to inform internal audit plan
- ✓ Plans align with goals and risks
- ✗ Only three departments provide a comprehensive view of agency-wide assurance
- ✓ Most departments have an approved rolling three- to four-year plan
- ✓ Not all departments assess against professional standards

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All departments conduct extensive engagement to inform the development of the internal audit plan.

All departments conduct assurance mapping, but only three provide a comprehensive view of agency-wide assurance and include assessments of risk appetite and the adequacy of assurance coverage.

Each department, except DTF, has an approved three- to four-year rolling internal audit plan that includes the detailed annual work program, as required by the *Standing Directions of the Minister for Finance 2016*.

## Program quality and execution



- ✓ All departments monitor and regularly report against the plan
- ✓ Five departments delivered their 2015–16 internal audit plans with approved exceptions
- ✓ No significant delays communicating findings
- ✓ All departments have processes to monitor and report on status of recommendations

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All internal audit functions report progress against the plan to the audit committee.

Five departments delivered their 2015–16 internal audit plans with approved exceptions.

The Department of Education and Training (DET) and DEDJTR did not deliver their plans due to resourcing challenges, departmental restructuring and a high volume of planned audits.

We did not observe any significant delays in communicating internal audit findings to the audit committee, and all departments have processes to monitor and report on the status of audit recommendations to the audit committee.

## Performance and insights



- ✓ Range of quantitative and qualitative measures established
- ✓ Reporting frequencies vary
- ✗ Only two departments provide a comprehensive annual performance report to the audit committee
- ✗ Communicating internal audit insights, systemic issues, themes and trends

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All departments have developed a range of quantitative and qualitative performance measures to evaluate the efficiency and effectiveness of their internal audit functions. The frequency of measurement, analysis and reporting against performance measures varies between departments.

DET and the Department of Justice and Regulation (DJR) provide their audit committees with comprehensive annual internal audit performance reports that include analysis of results and identify trends in performance and areas for improvement.

Internal audit is well positioned to share insights from audit activity and organisational engagement. Instead of reporting only the outcomes of individual audits, we recommend improving internal audits' value through the reporting of themes and systemic issues to provide a strategic and systemic organisational perspective.



## Recommendations

### 10 recommendations for departments

Focused on the following areas:

- Strengthen the position of the CAE
- Measure quality against professional standards
- Improve performance measures and reporting
- Improve reporting of controls, trends and systemic issues
- Provide a comprehensive view of assurance
- The Department of Treasury and Finance (DTF) to increase the period of its annual plan to three or four years

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We made 10 recommendations focused on improving how internal audit can provide value by:

- strengthening the position of the CAE
- measuring quality against professional standards
- improving performance measures and reporting
- improving reporting of controls, trends and systemic issues
- providing a comprehensive view of assurance.

We also recommended that DTF increase the period of its annual plan to three or four years.

## Recommendations

- Most departments accepted all recommendations.
- DTF does not support two recommendations relating to quality assessment against professional standards.
- The Department of Premier and Cabinet (DPC) considers that existing opportunities for the CAE and Secretary to meet are appropriate, and will seek advice from the external service provider on the need for quality assessments.

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Most departments accepted all recommendations and have provided detailed action plans on how they will address them.

DTF and the Department of Premier and Cabinet (DPC) accept most of our recommendations. DTF does not support two recommendations relating to quality assessment against professional standards. DPC considers that existing opportunities for the CAE and Secretary to meet are appropriate, and will seek advice from the external service provider on the need for quality assessments.

**For further information, please view the full report on our website:  
[www.audit.vic.gov.au](http://www.audit.vic.gov.au)**

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