

26 November 2013

Mr Tony Shepherd AO  
Chairman  
National Commission of Audit

By email – [submissions@ncoa.gov.au](mailto:submissions@ncoa.gov.au)

Dear Mr Shepherd

### **National Commission of Audit**

Thank you for the opportunity to make a submission to the National Commission of Audit.

Our submission is consistent with our national policy agenda (attached) and representations made to both sides of government over many years.

### **About us**

The Institute of Internal Auditors (IIA) internationally is the peak body for internal auditing. Established in 1941, the IIA is an international professional association with global headquarters in the United States. Our members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security. Globally the IIA has more than 180,000 members around the world.

IIA-Australia has been an active contributor to reforms nationally at all levels of government in the areas of enterprise governance, risk management, internal control, assurance and risk oversight. We represent over 3,000 members, a significant portion of whom are employed by or actively providing internal audit services to the public sector. This includes the majority of Chief Audit Executives in the public sector nationally and hence we are uniquely placed to give insights into some of the core areas of interest of the Commission.

## **Summary of key matters**

Our submission focuses on the following areas within the Commission's Terms of Reference at the individual department / agency / entity level.

*Efficiency and effectiveness of government expenditure:*

- 1. ensure taxpayers are receiving value-for-money from each dollar spent;*
- 2. eliminate wasteful spending;*
- 3. improve the overall efficiency and effectiveness with which government services and policy advice are delivered;*
- 4. government should have respect for taxpayers in the care with which it spends every dollar of revenue;*
- 5. mechanisms that allow for the periodic evaluation of the effectiveness of all areas of expenditure in meeting their announced objectives.*

*Public sector performance and accountability:*

- 1. identify options for continuous assessment of programs, agencies and performance;*
- 2. increasing independent and credible scrutiny.*

## **Increasing independent and credible scrutiny and continuous assessment of programs, agencies and performance**

IIA-Australia welcomes the periodic review of the nature undertaken by the Commission as a healthy and useful exercise in reviewing the key functions of government. It is a once-in-a-generation opportunity for review, reflection and adaptation to the current and future environment in which government will operate.

Similarly, IIA-Australia recommends similar mechanisms on an ongoing basis at the individual department / agency / entity level.

Internal audit is a standing review function within an organisation that is independent of management. Contemporary internal audit functions perform a rolling program that reviews and provides assurance on:

1. the adequacy and effectiveness of risk management and internal control within the organisation;
2. the effectiveness of program delivery, value for money from funds spent, safeguarding of assets, waste, maladministration and fraud control.

The by-product of this work are recommendations that are tracked through to resolution on improving performance, minimising waste, decreasing risk and improving control that in turn reduces risk, improves the effectiveness of program delivery and the cost at which programs are delivered.

Internal audit achieves its highest level of performance when overseen by commercially focused independent audit committees. This is the case in all sectors, and is the key element of our submission.

### **Suggested reforms**

Achieving the type of results as set out in the Terms of Reference for the Commission would require a number of reforms to be driven centrally. It is our view that some of these reforms are long overdue, and the Commonwealth is lagging the States in this area.

In particular we recommend that:

1. Audit and risk committees be in place for all government entities – particularly those with significant operational activity, delivery responsibility and budget throughput.
2. These audit and risk committees be constituted by appropriate high performing, independent members, consistent with the level and quality of oversight of their equivalents in the listed sector.
3. The audit and risk committees have an independent chair and a majority of independent members.
4. Mechanisms be put in place to ensure that only the highest performing and experienced audit and risk committee members are appointed, and that their performance be evaluated on a regular basis.
5. The charters for these committees be aligned with a consistent charter, reflecting the priorities of government, such as those contained in the specific terms of reference as set out above from the Commission.
6. The internal audit functions be aligned to support those committees and their charters.
7. Internal audit performance be underpinned through appropriate qualifications, adherence to professional standards and periodic quality review and external assessment.

### **Experience elsewhere**

A strong precedent for this approach was implemented in NSW in 2009.

As a result of significant reforms in internal audit and audit committees, the following benefits are being realised across the sector:

1. Committees being used to drive faster reporting times, less audit adjustments in the financial statements and fewer financial surprises.

This has provided a mechanism to achieve greater certainty in government-wide financial reporting and budget management during a period when services were being rationalised and reliability could have deteriorated.

2. Independent oversight is being performed of operational risk matters that are important for budget performance and program delivery that cannot reasonably be monitored by the Minister's office, or Director General for a cluster of agencies.
3. Close scrutiny and de-risking is taking place in the execution and implementation of major change programs as well as business-as-usual delivery.

It is the view of IIA-Australia that the approach taken in NSW has resulted in some of the most effective results that we have seen internationally. In many ways these are global best practice and are a model for other countries.

As such, we recommend that the key elements are worthy of consideration by the Commission either directly, or as part of its recommendations for further investigation:

1. A significant revamp of the standard charters for audit and risk committees and internal audit functions driven out of central government with greater specific requirements and accountability aligned to the Commission's Terms of Reference or related government policy.
2. A centralised and independent vetting process to vet and accredit committee members across the sector to ensure that they are sound, high performing and independent. This ensures that agencies can access the best expertise without having to undertake their own search processes – resulting in a higher quality pool that can be accessed more quickly and at lower cost, while also ensuring quality, independence and non-political appointments.
3. Periodically reviewing the standard charter for those groups to perform new roles or have tighter focus on particular areas.
4. Minimum standards for internal audit.

As experienced in NSW, this would drive high performance in key matters right into the operational arms of government without direct intervention from outside of that agency – in effect increasing the independent and credible scrutiny and continuous assessment of programs, agencies and performance as set out in the Commission's Terms of Reference.

### **Realising the benefits of the full set of imminent reforms**

We anticipate that the Commission will be likely to be recommending a significant program of change, and this change will be subject to significant execution risk.

Our experience in observing change programs across all sectors, particularly those programs related to streamlining, is that a

compensating investment in internal audit and risk oversight ensures that:

- those changes are realised without major disruption, incident or cost-overruns;
- temporary weaknesses in internal controls are not exploited by way of fraud or malfeasance.

Effective investment in internal audit is an efficient and effective way for agencies to anticipate and minimise execution risk. We would caution the government to protect the investment in internal audit during any period of significant change or rationalisation, and not cut this area as this would increase the risk during the transition period.

Anecdotally, CEOs in listed companies have commented that increasing their spending on internal audit during cost-cutting gives them the confidence to cut elsewhere.

We consider this to be very good advice and something the Commission may wish to advise on. In addition, we would encourage a focus on risk management and internal control stability during periods of major change.

### **Whether activities could be undertaken more efficiently by the private sector, the not-for-profit sector, the States, or local government.**

Through our members we have seen different models of contracting out, partnering, reinventing government and use of external providers.

In our experience:

- all models can work, but accountability for driving results and managing contracts cannot be outsourced;
- skills and processes must be aligned with efficient contract management – this may require significant up-skilling or buying-in of expertise;
- Not doing so can result in either:
  - contracts not being managed effectively (leading to underperformance, overruns, inefficiencies); or
  - existing checks and balances being placed on the provider in a manner that is not fit for purpose. This can in turn result in inefficiencies being “exported” to the provider and increased bureaucracy without achieving the desired benefits or savings.

In considering the contracting-out of any activity, there should not be an assumption that existing personnel can perform this role well without new skills and expertise, or that the contracts can self-manage without

appropriate scrutiny and contract management from the side of the buyer.

We would strongly recommend that the right and properly qualified expertise be put in place to ensure that the benefits are gained in full in an efficient, effective and economic manner.

**Thank you / further information**

We thank you for the opportunity to comment and would be delighted to provide further details or to brief the Commission on any aspect of our submission.

If you would like to discuss any aspect of submission, please contact me on 02 9267 9155.

Yours sincerely



Chief Executive Officer

Attachment: IIA-Australia Policy Agenda