

**Internal Audit Procedure**

**Policy ID 00029/1 February 2024**

Internal Audit Procedure

This procedure must be read in conjunction with Audit Committee Charter, Internal Audit Charter and the Internal Audit Policy.

Table of Contents

[1. Overview 1](#_Toc419889959)

[2. Rationale 1](#_Toc419889960)

[3. Procedures 1](#_Toc419889961)

[4. Complaints 1](#_Toc419889962)

[5. Contact 1](#_Toc419889963)

[6. References 1](#_Toc419889964)

1. Overview
	1. The procedure provides guidance on how the internal audit function operates within the Education Directorate (the Directorate).
2. Rationale
	1. This procedure is established to guide the internal audit activity within the Directorate, in accordance with Standard 2040 (Policies and Procedures) *of the International Standards for the Professional Practice of Internal Auditing.*
3. Procedures

**Annual Audit and Assurance Program**

* 1. The Chief Internal Auditor prepares an Annual Audit & Assurance Program to be presented to the Director-General for approval and to the Audit Committee for endorsement.
	2. The Annual Audit & Assurance Program will be reviewed and may be adjusted on a six-monthly basis to ensure continual alignment to the Directorate’s strategic goals in consideration of changes to the risk profile and management priorities. Any outcomes of this review are subject to the Director-General’s approval and Audit Committee Chair endorsement.
	3. In accordance with the *Public Sector Internal Audit Better Practice Guide* (Australian National Audit Office (2021)) and *Effective Internal Auditing in the Public Sector – a Good Practice Guide* (issued by the Institute of Internal Auditors (March 2020)), the following approach will be used to help guide the development of the plan:
* Consultation with all members of CORPEX, the Executive Governance Committee (EGC), the Director-General and Audit Committee to identify areas of risk or concern;
* Reviewing the Directorate’s Strategic Risk Register and associated controls to identify areas of importance and risk to the Directorate and/or where the potential for loss or failure is greatest;
* Reviewing the Directorate’s Strategic Plan to ensure the Audit and Assurance Program aligns with and responds to the Directorate’s strategic directions and objectives;
* Mapping the Directorate’s assurance coverage by reviewing internal and external audit activities over three years and the Directorate’s Assurance Map to identify and respond to gaps in assurance coverage; and
* Reviewing the ACT Audit Office’s Performance Audit Program and Potential Audits and other relevant publications (such as the ACT Audit Office Insights Publications), to ensure that potential duplication and gaps in overall audit coverage are known, and to identify potential opportunities for the ACT Audit Office to rely on the work of the internal audit function.

 Resourcing, Conflict of Interest and Confidentiality

* 1. Internal audit activities are predominately undertaken by outsourced internal audit service providers.
	2. Based on the audit scope, focus and objectives, the skill set necessary to complete the internal audit and the budget available for the audit, a suitable Internal Audit Service Provider is selected from the Whole of Government panel arrangements – Professional and Consulting Services Panel, Risk & Audit in accordance with the relevant procurement guidelines. A multi-year agreement with one service provider will be considered as an option ahead of the commencement of the 2024-25 Audit and Assurance Program.
	3. Prior to each audit starting, the Chief Internal Auditor will agree a budgeted hours and price. Any proposed variations to the budgeted hours or price must be requested in writing and negotiated with the Chief Internal Auditor as soon as possible and before the budgeted hours are exceeded. The Chief Internal Auditor may authorise or reject any variation at their discretion.
	4. Outsourced service providers must demonstrate their professional competence through relevant professional experience and appropriate professional certifications and qualifications (such as, but not limited to, the Certified Internal Auditor designation and/or other designations offered by the Institute of Internal Auditors and other appropriate professional organisations). The providers are responsible for the provision of suitably qualified audit staff and their professional conduct. Before the commencement of the engagement, the providers must detail all proposed staff for approval by the Chief Internal Auditor.
	5. The outsourced service provider is to provide an undertaking at the commencement of the contractual period that no actual or perceived conflict of interest exists, or is likely to occur, in relation to the audit services to be provided. If at a later stage, audit staff from the outsourced service provider become aware of a situation in which a conflict of interest or bias is present or may reasonably be inferred, they must immediately advise the Chief Internal Auditor, and apply mitigation strategies in consultation with the Chief Internal Auditor.
	6. The outsourced service provider is to provide a deed of confidentiality at the commencement of the contractual period that they are responsible and accountable for maintaining the confidentiality of the information they access during the course of their work.
	7. Internal auditors and outsourced service providers must suitably safeguard all Directorate records, documentation and information from access by unauthorised persons.
	8. No audit documentation will be released to any external parties without the written approval of the Director-General (or nominated delegate) and where necessary the Directorate’s legal counsel.

An Internal Audit Process – Overview

* 1. An internal audit is conducted as follows:

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| 1. *Planning and scope*
 | * Internal Audits can be selected from the annual Audit and Assurance program, or they may be management-initiated reviews.
* Research is undertaken to define the audit objective, scope and criteria to inform the Terms of Reference.
* Key stakeholders are identified and timeframes are estimated.
* Terms of Reference submitted for approval to the Audit Sponsor, usually the Executive Branch or Group manager for the area to be audited.
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| 1. *Entry meeting*
 | * An entry meeting is held with key stakeholders including, but not limited to, the Audit Sponsor, the business unit subjected to the audit, the internal audit service provider, the Chief Internal Auditor and members of the Audit and Assurance section.
 |
| 1. *Fieldwork and Documentation*
 | * Information and data gathering and analysis phase (including sampling, data analytics and/or observations) to assess the effectiveness of controls and accuracy of information.
* Interviews with key personnel take place.
* Audit working papers prepared and completed (test plans) to verify findings and evidence base.
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| 1. *Evaluation*
 | * Assessment of the effectiveness of the internal controls in place to mitigate risks.
* Identify any gaps in controls.
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| 1. *Reporting*
 | * Draft report is prepared for sharing with the Audit Sponsor and key stakeholders, and includes an executive summary, details of the audit procedures performed, identifies any issues and recommendations for improvement.
* Comments on the draft report will be considered by the auditors.
 |
| 1. *Debriefing / Exit Meeting*
 | * Exit meeting held with the Audit Sponsor, the business unit subjected to the audit, the internal audit service provider, the Chief Internal Auditor and members of the Audit and Assurance section.
* Discussion of key findings and proposed audit recommendations.
 |
| 1. *Management comments*
 | * Management comments are requested on the draft audit report.
* Management comments are required to be drafted in **two weeks**, and the Audit Sponsor is required to clear those comments within **one week.** Failure to meet this deadline will require an explanation to the Chair of the Audit Committee.
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| 1. *Endorsement*
 | * The Audit Committee discusses and endorses the draft audit report at a quarterly meeting or out of session.
* Following endorsement, the report is made final.
 |
| 1. *Follow-up / Monitoring and Reporting*
 | * The final audit report is provided to the Director-General and Executive Governance Committee for information.
* Audit recommendations are added to and tracked through a register – quarterly updates are required.
* Monitoring of recommendations is reported to the Audit Committee and to the Executive Governance Committee.
 |

 **Planning and scope**

* 1. In planning each audit activity, the internal auditors will consider:
* the objectives of the activity being reviewed and the means by which the activity controls its performance and achievement of those objectives;
* the significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact and/or likelihood of risk is kept to an acceptable level;
* the adequacy and effectiveness of the activity’s risk management and control systems compared to a relevant control framework or model;
* whether the scope is relevant to the risks identified when developing the internal audit plan; and
* the opportunities for making significant improvements to the activity’s risk management and control systems.
	1. Preliminary scoping will be undertaken to ascertain and map business units’ current practice/s, and determine if the process is compliant with policy, or if better practice in terms of controls than what is prescribed in legislation or policy.
	2. For each internal audit activity, the internal auditors will determine the risks to be included in the scope of the internal audit. The internal audit fieldwork will be aimed at determining the presence and effectiveness of controls in place to mitigate these potential risks.
* Scoping/planning meeting: to determine the objectives and scope of each internal audit activity, the internal auditors will conduct a planning meeting with the management of the business unit being audited/reviewed.
* Audit criteria: the internal auditors should clarify the specific explicit and implicit criteria against which evidence collected will be evaluated. Criteria are explicit when they are clearly set out in policies, manuals, standard operating procedures, standards, laws and/or regulations.
	1. The internal auditors will prepare an audit Terms of Reference that will normally include the:
* Overview of the area to be audited/reviewed;
* Background on why the audit is taking place;
* Objectives of the audit;
* Scope of the audit i.e. the processes the audit will include and exclude;
* Audit standards that will be followed including the type of engagement;
* Audit methodology/approach to be taken;
* Key deliverables of the project;
* Professional standards that will be followed;
* Resources that will be used on the audit and the cost; and
* Timing for the commencement of field work, draft report for discussion and final report for tabling.
	1. The draft audit Terms of Reference is sent to the Chief Internal Auditor for approval and then to the Audit Sponsor for approval. Upon receiving the draft audit Terms of Reference, the Audit Sponsor is required to provide comments and approval within **one week**.

 **Entry Meeting**

* 1. The purpose of an entry meeting is to:
* ensure all relevant staff of the audited area are aware that the audit is taking place and know who the internal auditors are;
* confirm the audit timeframes; and
* signal the commencement of audit fieldwork.
	1. The entry meeting will be attended by the internal auditors and key stakeholders from the area to be audited. It will be chaired by the Chief Internal Auditor and the Audit Sponsor will be invited.

 **Audit Fieldwork and Documentation**

* 1. A risk assessment is conducted at the activity level to identify and evaluate risk exposures and determine audit objectives. It involves considering business process risks, quality of management and/or individual performance. The risks that threaten the objectives of each process to be audited should be identified and classified. The audit will concentrate on those processes which are assessed as moderate or higher risk.
	2. The internal auditors must obtain an understanding of the internal control system to make a preliminary assessment as to whether those controls are effective in mitigating risks. This can occur through the gathering, testing and analysis of information using various auditing techniques. Audit techniques can include (but are not limited to) conducting interviews, reviewing documents, analysing data, requesting questionnaires and observations in walk-throughs.
	3. To test the existence and/or effectiveness of controls in place to treat identified risks, the internal auditors follow a documented audit testing program. The program involves reviewing and documenting current processes and conducting sample testing where appropriate.
	4. The structure of the audit testing program should be made up of the following:
* Audit objective;
* Audit scope;
* Risk and control analysis;
* Audit criteria; and
* Previous audit recommendations – in cases where previous audits are relevant. The internal auditors and/or outsourced service providers will then verify that the matters have been addressed or are being addressed.
	1. Internal Audit sampling will be conducted in line with sampling methodologies.
	2. During the audit fieldwork, the internal auditors will communicate matters of significance with the Chief Internal Auditor and Audit Sponsor to minimise the possibility of "surprises" at the end of the audit. This may be done informally (e.g. emails, discussions) or via formal meetings.
	3. Audit evidence refers to all the information used by the internal auditors in arriving at the findings and recommendations. Evidence needs to support the basis of the findings; it should be relevant and appropriate to the internal audit testing program. Sample sizes should be representative and sufficient to ensure that conclusions reached may be statistically valid deriving from the data.
	4. Working papers document the audit work that was completed from the preliminary scoping stages through to the final report. Audit working papers show whether due professional care was exercised and illustrates compliance with professional auditing standards.
	5. Fieldwork and testing will be documented in the internal auditors standard format for working papers.
	6. All working papers will be subject to a quality assurance and technical review by a more senior staff member of the internal auditors and/or outsourced service providers than the staff member who completed the working papers. The Audit and Assurance team will request and retain all audit working papers at the conclusion of each internal audit activity.
	7. All internal audit documentation is to remain the property of, and to be able to be accessed by the Directorate, including where the internal audit services are performed by an outsourced service provider.
	8. Audit documentation must be retained in accordance with *Territory Records Act 2002*, including the audit documentation retained by outsourced service providers.

Evaluation

* 1. The analysis and evaluation of evidence obtained should give rise to issues (positive or constructive), which the internal auditors and/or outsourced service providers may report to management. Conclusions should be specified, free from personal biases or prejudices, and be objective.

Reporting

* 1. After the Fieldwork and Evaluation, a draft internal audit report (marked “draft”) will be issued to the key stakeholders and Audit Sponsor of the business unit being audited, for initial feedback and to confirm findings and observations.
	2. This preliminary draft internal audit report is not for the purposes of receiving management comments; but can be used during Debriefing / Exit meeting to ensure clarification of information is sought.

Debriefing / Exit Meeting

* 1. An Exit Meeting will be held to discuss the findings from the audit field work to confirm facts or clarify information.
	2. The Exit Meeting will be attended by the Chief Internal Auditor, internal auditors and/or outsourced service providers and key stakeholders and audit sponsor.

Management Comments

* 1. After the Debriefing / Exit Meeting a formal draft internal audit report (marked “draft”) will be issued to the senior management of the area being audited, for management comments.
	2. The draft report will specifically:
* include an Executive Summary which will describe the objective, scope, background, key controls and positive observations and key findings/opportunities for improvement;
* state the objective(s), scope, methodology and conclusion of the audit;
* detail any risks identified that were not effectively treated and suggestions for improvement;
* prioritise the risks identified through the use of the Directorate’s Risk Matrix;
* propose recommendations to further treat the identified risks; and
* seek management’s comments in response to the recommendations and implementation timeframes.
	1. Audit recommendations made in the draft report should be based on the issues raised in the findings, implementable within a foreseeable period and be reasonable in consideration of the risk rating.
	2. If the Audit and Assurance section are made aware of an issue of material concern, there is a professional obligation to report on the issue, even if it is outside the confines of the original scope of the internal audit.
	3. If issues are identified with the operation of external controls, relevant directorates or agencies need to be informed. This may include issues with legislation, policy and/or procedures which could adversely impact the Directorate.
	4. Upon receipt of the draft internal audit report, the management of the business unit being audited is required to provide management comments within **two weeks**.
	5. All management responses which appear in the audit reports must fall within three categories: Agreed, Disagreed or Partially Agreed.
	6. The response should then concisely detail the action management intends to take in response to the recommendation, stating who will take the action and when it will be completed. If the recommendation is Partially Agreed or Disagreed, the response must have a reason. When considering the implementation date of the recommendation, management should weigh the risk rating against available resources, to arrive at a reasonable timeframe.

Endorsement

* 1. Following the completion of management comments, the internal audit report will be submitted to the Audit Sponsor for approval. Upon receipt of the report, the Audit Sponsor is required to provide comments or approval within **one week**.
	2. Once the report is approved by the Audit Sponsor, it can then be included in the papers for the next Audit Committee meeting for endorsement. The internal auditors, Chief Internal Auditor and Audit Sponsor will attend the Audit Committee meeting to answer any questions that the Audit Committee may have.
	3. Following endorsement, the internal audit report can be distributed to the Executive Governance Committee for information, and to Director-General.

Follow up / Monitoring and Reporting

* 1. The Chief Internal Auditor provides audit recommendation progress reports to the Audit Committee and Executive Governance Committee on a quarterly basis.
	2. The Chief Internal Auditor maintains an Audit Recommendations Register which records recommendations, responsible officers, progress updates, expected completion dates and implementation status for each audit.
	3. The Chief Internal Auditor provides updates to the Audit Committee on internal and external audit recommendations to assist the Committee with monitoring progress or accepting the closure of recommendations, as required.
	4. Recommendations arising from the Auditor-General Office’s financial and computer information system audit management reports are subject to verification by the Audit Office as part of the annual review process.
	5. Recommendations arising from Auditor-General’s Office performance audits are subject to reporting through the annual review process; however, they can be considered for closure by the Audit Committee, when fully implemented.

Audit Committee Reporting

* 1. Audit Committee reporting occurs on a quarterly basis and includes:
* progress updates of the Annual Audit and Assurance Program;
* presentation of internal audit reports with management comments, for endorsement;
* implementation status of open audit recommendations and recommended actions from the Chief Internal Auditor;
* standing agenda items; and,
* any special agenda items that are of interest to the Committee.
	1. The Chief Internal Auditor is required to distribute Audit Committee meeting agenda and papers at least **one week** before the meeting. The Executive Branch Managers of the relevant areas within the Directorate are required to submit Audit Committee meeting papers and audit recommendation updates (cleared by the Executive Group Managers or Deputy Director-General) to the Chief Internal Auditor at least **two weeks** before the meeting.
	2. This procedure will be reviewed on an ongoing basis with a formal review conducted at least once every three years. Any substantive changes will be formally approved by the Director-General and endorsed by the Audit Committee.
1. Contact
	1. 4.1 The Chief Internal Auditor is responsible for this procedure.
	2. For support contact the Chief Internal Auditor on (02) 6207 4386.
2. Complaints
	1. Any concerns about the application of this procedure or the procedure itself, should be raised with:
* the Policy Owner, the Chief Internal Auditor;
* the Directorate’s Feedback and Complaints team on (02) 6205 5429; or
* online at [www.education.act.gov.au/about-us/contact\_us](https://www.education.act.gov.au/about-us/contact_us);
* see also the *Complaints Management Policy* on the Directorate’s website.
1. References
	1. **Definitions**
* **Conflict of Interest**: any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual’s ability to perform his or her duties and responsibilities objectively.
* **Control**: any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.
* **Independence**: the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.
* **Internal Audit**: an independent, objective assurance activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
* **Risk**: the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.
	1. **Related Policies and Documents**
* Internal Audit Policy, Policy Identifier 00029/1
* Internal Audit Fact Sheet, Policy Identifier 00029/2
* Internal Audit Charter, Policy Identifier 00029/3
* Audit Committee Charter, Policy Identifier 00029/4
* Framework for Internal Audit Committee and Function (CMTEDD)