



Tasmanian
Audit Office

Effectiveness of Internal Audit

Report of the Auditor-General No.1
of 2020-21

Objective and scope of the audit

Objective: The objective of the audit was to examine whether the audit committees and internal audit functions of departments were operating effectively and delivering a positive impact on departmental performance.

Scope: The audit assessed the impact of audit committees and internal audit functions across all nine Government departments.

Intended benefits: To identify potential lessons and opportunities for improvement to assist departments increase the effectiveness of their audit committees and internal audit functions.



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What is internal audit?

"an independent, objective assurance and consulting 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."

Source: Institute of Internal Auditors Australia



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Conclusion

- Departmental internal audit functions did not perform, in terms of efficiency and effectiveness, with respect to certain criteria or sub-criteria of the performance engagement.
- This is because, despite the implementation of Treasurer's Instruction by all departments, there was variable quality in communication between department secretaries and audit committee chairs resulting in a lack of clarity regarding the performance and impact of internal audit functions.
- Audit committees were not sufficiently independent and as a consequence not always able to provide the appropriate level of scrutiny and challenge to departmental management.
- Training and induction for audit committee chairs and members was limited and did not help to build the capability of audit committees.
- While internal audit work plans were adequately resourced they were not always aligned with key departmental risks and priorities.

Major findings

- Independence was not consistently strong enough across all departments.
- Inconsistencies in effectiveness of communication.
- Limited training and induction for audit committee members.
- Resourcing for the internal audit function was increasing and becoming more agile .
- Performance management of audit committee members was either conducted informally or undertaken as a self-assessment.
- Internal audit work plans did not consistently link to strategic risks, objectives and priorities.

Independence

- The *Report of the Auditor-General No.9 of 2017-18* recommended the composition of the audit committee include a majority of independent external members.
- Only two audit committees had majority external members.
- Five audit committees had majority internal members.
- Five audit committees were chaired by internal members.

Internal audit work plans

- Not all internal audit work plans were clearly linked to strategic risks, objectives and priorities.
- We found a few internal audit functions were still developing and had not reached a point where more strategic internal audit work could be regularly considered.
- Plans were regularly reviewed to incorporate new projects and address emerging risks.

Resourcing of the internal audit function

- All departments' internal audit functions and audit committees were sufficiently resourced.
- Most departments had additional funds available for unplanned audits.
- All audit committees had effective processes to monitor and track audit report recommendations.

Recommendations

We made nine recommendations to assist departments strengthen audit committees and internal audit functions.

- Secretaries to ensure there are regular, formal meetings with audit committee Chairs
- Collaboration across departments to benchmark internal audit activity
- Audit committees to have independent Chairs and majority external members
- Develop audit committee role profiles and skill matrices
- Improve induction and training for audit committee members and internal auditors
- Improve the links between internal audit plans, departmental risks and strategic objectives
- Review effectiveness of audit recommendations in driving improvements and improving outcomes
- Conduct annual performance assessments of the audit committee with periodic external assessments
- Review committee charters to ensure they follow Treasury guidance
