



LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

PUBLIC ACCOUNTS COMMITTEE

INTERNAL AUDIT

in the

NORTHERN TERRITORY PUBLIC SECTOR

REPORT NUMBER 26

NOVEMBER 1995

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CONTENTS

	Page No.
LIST OF TABLES	v
LIST OF FIGURES	v
STATUS OF THE COMMITTEE	vi
DUTIES OF THE COMMITTEE	vi
COMMITTEE MEMBERS	vii
CHAIRMAN'S FOREWORD	viii
1. BACKGROUND	1
1.1. Australian Council of Public Accounts Committee Resolution	1
2. CONDUCT OF INQUIRY	2
2.1. Briefings	2
2.2. Survey of Agencies	2
2.3. Seminar	2
3. CONCLUSIONS	3
3.1. Comments to the Resolutions	3
3.2. Comments to the Survey	6
4. INTERNAL AUDIT	8
4.1. Definition	8
4.2. Standards	8
4.3. Differences between Internal/External Audit	9
5. STATUTORY REQUIREMENTS IN THE NORTHERN TERRITORY	9
5.1. Financial Legislation	9
5.2. Functions of Chief Executive Officers	10
6. NORTHERN TERRITORY PUBLIC SECTOR	10
6.1. Internal Audit Bureau	10
6.2. Other Bodies	12
7. CHANGES AND FUTURE DIRECTIONS	12
7.1. Current Legislative Requirements (effective 1 April 1995)	12
7.2. Internal Audit Bureau	13
7.3. Fraud Control Policy	13
7.4. Program Evaluation and Review	13
8. SURVEY RESULTS	14
8.1. NT Government Agencies	14
8.1.1. Organisational Profile	14
8.1.2. Perceptions of Internal Audit	15
8.1.3. Activities	21
8.1.4. Accounting and Property Manuals	25

LIST OF TABLES

Table 1: Type of organisational structure.....14

Table 2: Size of organisation in terms of number of employees.....14

Table 3: Size of organisation in terms of current annual budget allocation15

Table 4: CEOs understanding of internal audit function15

Table 5: Skills in addition to basic auditing skills required to fulfil an effective internal audit function16

Table 6: Internal Audit opportunities for training16

Table 7: Lines of Reporting.....17

Table 8: Indication of the roles which may be given greater/lesser emphasis to any changes in the role of internal audit in the next 3 - 5 years17

Table 9: The internal audit function is serve best by which group/s.....18

Table 10: Comments: Chief Executive Officer's Internal Audit Responsibilities should be a Prominent Part of their Statement Duties.....20

Table 11: Other comments on any aspect of the internal audit service provided to organisations.....21

Table 12: Aspects of organisations activities reviewed by the Internal Audit Bureau or a consultant21

Table 13: Number of audits conducted by either the Internal Audit Bureau or a consultant in 1992/93 and 1993/422

Table 14: Audits conducted as part of a cyclical audit plan or on request.....22

Table 15: Reasons for engaging (or the likelihood or engaging) a consultant rather that the Internal Audit Bureau23

Table 16: Whether the Auditor General (or his authorised auditors) should be able to access Internal Audit Reports and consultancy reports.....24

Table 17: Reason given for the Auditor-General's access to Internal Audit Reports and consultancy reports.25

Table 18: Accounting and Property Manual document contents25

Table 19: Legislation administered by organisation refer to the following functions: (not including the Financial Administration and Audit Act).....26

Table 20: Function of the audit published in the annual reports.....26

Table 21: Does the organisation have an audit committee?.....27

Table 22: What is the role of the audit committee?.....27

Table 23: Does the Audit Committee have defined terms of reference?28

Table 24: Frequency of the audit committee meetings.....28

Table 25: Details of the composition of the Audit Committee.....29

Table 26: Composition of the Audit Committee - Survey of Members29

Table 27: Composition of Audit Committee - Survey of Chairman.....30

Table 28: To Whom the Audit Committee reports to.....30

Table 29: Further comments on the aspects of internal audit31

LIST OF FIGURES

Figure 1: No. of staff (establishment)32

Figure 2: No. of Vacancies (as at 30 September 1994)32

Figure 3: Classification of organisation (by numbers and gender)33

Figure 4: What are the resources of your internal audit section in terms of formally qualified and/or experienced staff?33

Figure 5: How many employees of your internal audit section hold qualifications with any of the professional bodies?34

Figure 6: Question 7: What are the number of internal audit staff currently receiving the following annual income?34

Figure 7: Question 8. Based on current staff establishment, identify sources from where staff were recruited.....35

Figure 8: Question 13. Internal Audit Annual Staffing Costs (Personnel Costs).....36

Figure 9: Question 18. Internal Audit Section Average Time Allocations37

COMMITTEE MEMBERS

The Members of the Public Accounts Committee are:

Mr Rick Setter, MLA - Chairman

Appointed 17 May 1988

Appointed Chairman 25 August 1994

Country Liberal Party

Member for Jingili. First elected 1984.

Chairman of Committees.

Other Committees: Publications (Chairman); Subordinate Legislation and Tabled Papers (Chairman); Standing Orders.

Mr John Bailey, MLA

Appointed 4 December 1990

Australian Labor Party

Member for Wanguri. First elected 1989.

Opposition Whip

Shadow Minister for Tourism, Transport and Works and Territory Insurance Office.

Other Committees: Constitutional Development; Environment; New Parliament House

Mrs Loraine Braham, MLA

Appointed 27 June 1994

Country Liberal Party

Member for Braitling. First elected 1994

Deputy Chairman of Committees

Other Committees: Use and Abuse of Alcohol by the Community.

Mr Brian Ede, MLA

Reappointed 27 June 1994

Australian Labour Party

Member for Stuart. First elected 1983.

Leader of the Opposition

Shadow Minister for Chief Minister, Treasurer, Police, Fire and Emergency Services, Asian Relations and Trade and Industries and Development

Mr Phil Mitchell, MLA

Appointed 15 August 1995

Country Liberal Party

Member for Millner. First elected 1994

Other Committees: Publications; Constitutional Development; Environment.

1. BACKGROUND

1.1. Australian Council of Public Accounts Committee Resolution

At the 1994 meeting of the Australian Council of Public Accounts Committees (ACPAC), it was resolved that:

each Public Accounts Committee act forthwith to ascertain whether proper internal audit procedures are in place in government departments and business enterprises in its particular jurisdiction, having regard to the particular laws and usages of each such jurisdiction, and report back to the 1995 Biennial Conference of Australasian Public Accounts Committees for further action.

The Australian Council of the Public Accounts Committee considered that:

- the public interest demands that internal audit be effective;
- all Chief Executive Officers should be required to establish an effective internal audit capacity either in house or contracted in;
- if Chief Executive Officers take internal audit seriously, their agencies will also;
- Chief Executive Officers should be and should be seen to be the focal point of effective internal audit;

The Council recognised that each Australian jurisdiction was different and the following proposals were suggested by the delegates to the Council:

- Chief Executive Officers' internal audit responsibilities should be a prominent part of their statement of duties;
- Chief Executive Officers should establish or contract-in effectively resourced internal audit;
- Chief Executive Officers should allow internal auditors direct access to them, not to a Deputy;
- Internal auditors should report to an audit committee;
- Chief Executive Officers should be involved in planning the internal audit program;
- Internal audit achievements for the past year should be published in Annual Reports, whilst future audit programmes could also be included;
- Chief Executive Officers should ensure internal audit has full access to all parts of an agency - no areas should be off-limits;

- Speaker: Mr David Rolfe
Strategic and Audit Services Division
Department of the Chief Minister
- Speaker: Mr Des Pearson
Auditor-General for Western Australia
(Refer Appendix 2.)
- Commentary: Mr Iain Summers
Auditor-General
Office of the Auditor-General

3. CONCLUSIONS

3.1. Comments to the Resolutions

The audit survey was conducted during the currency of the *Financial Administration and Audit Act* and the *Public Sector Employment and Management Act* and the following comments have been provided against each Australian Council of Public Accounts Committee's resolution in relation to this legislation.

It should be noted however, that the replacement financial legislation, the *Financial Management Act* and the rewritten Treasurer's Directions adequately cover all the resolutions to ensure that Chief Executive Officers have adequate internal audit capacity. Since 1 April 1995, section 15 of the *Financial Management Act* now specifies the Accountable Officer's responsibility to the role of internal audit. This is further expanded in the rewritten part 3 of the Treasurer's Directions. Specific sections detail the Accountable Officer's responsibility in relation to his agency, internal audit, audit committees and program evaluation.

3.1.1. *Chief Executive Officer's Internal Audit Responsibilities should be a prominent part of their Statement of Duties.*

It is not necessary to further specify in individual Chief Executive Officer's duty statements, internal audit responsibilities.

In a broad sense, the *Public Sector Employment and Management Act* requires Chief Executive Officers to have adequate financial and management systems which would include systems of appraisal and internal control already provided by the Internal Audit Bureau.

Section 26 (b) of the *Finance Administration and Audit Act* specified duties of each accountable officer. Section 27 of the Act also established the internal audit function and provided for direction by the Treasurer in relation to internal audit matters.

Treasurer's Direction 17 directed, where justified, the establishment of an internal audit function.

3.1.5. *Internal Audit results for the past year and the programs for the next year, must be published in the Annual Report to allow independent verification of effectiveness.*

There is no current legislative requirement to publish internal audit results or forward programs. Some Agencies do however, publish results of internal audits in their Annual Reports.

The concept of publishing audit results was questioned by the Internal Audit Bureau. The Bureau considered that a peer review would be better suited to provide an independent verification of effectiveness.

3.1.6. *Chief Executive Officers must ensure Internal Audit has full access to all parts of the agency - no areas should be off-limits.*

This was adequately covered within Treasurer's Directions 17 and was considered an essential provision of an internal audit operation by providing an essential control in undertaking a comprehensive independent review of an organisation's operations.

3.1.7. *Chief Executive Officers must ensure Internal Audit is deployed in a timely fashion information technology auditors must do their work when information systems are being planned and developed, not when they have failed.*

There is no legislative provisions to ensure timely deployment of internal audit staff. There has, in recent years, been a number of occasions, particularly in the information technology area, where the Internal Audit Bureau was requested to provide pre-implementation advice.

There is however, a legislative requirement to refer major computing system purchases to an inter-departmental committee who may impose such requirements as audit pre-implementation review.

3.1.8. *Treasuries should encourage the creation of audit committees to provide advice to and oversight of Chief Executive Officers on internal audit matters.*

A memorandum from the Treasurer encouraged the establishment of audit committees in Statutory Authorities. The Auditor-General has also been active in encouraging the establishment of audit committees.

The Internal Audit Bureau undertook, with some success, a marketing/education program with individual clients in encouraging the establishment of audit committees.

While not mandatory for Agencies, this has now been included in the Treasurer's Directions issued under the *Financial Management Act* (part 3, section 3 refers).

established in 1985 and 1989 respectively. The Department of Health and Community Services advised that their agency gave very low priority to the internal audit function. However the Committee noted this survey was not signed off by the Chief Executive Officer and has since appointed an inhouse internal auditor and established an audit committee.

It was pleasing to see the positive response in management's attitudes towards the internal audit function. However, there needs to be a change in the perception of the function as a more strategic approach is taken to the accountability and performance of the Agency. This will gain recognition as more agencies accept responsibility for limited resources and demand more independent evaluations to assess the effectiveness and efficiency of their organisation and subsequently establish strategies to maintain that ongoing evaluation.

- AUP12 Consideration of the Internal Control Structure and its Impact on Risk Assessment in a Financial Report Audit
- AUP33 Performance Auditing

4.3. Differences between Internal/External Audit

INTERNAL	EXTERNAL
Audit requirements determined by client organisation	Statutory Responsibilities Sets own agenda
Reports to Chief Executive Officers as part of the management team	Reports to Parliament
Focuses on management issues critical to organisations	More financial and performance based

In the Northern Territory, a professional co-operative relationship exists between the two audit functions. The Auditor-General does, on occasion, rely on work performed by the Internal Audit Bureau. This avoids duplication of audit effort by both organisations.

5. STATUTORY REQUIREMENTS IN THE NORTHERN TERRITORY

The audit survey was conducted during the currency of the *Financial Administration and Audit Act* and the *Public Sector Employment and Management Act*.

5.1. Financial Legislation

The *Financial Administration and Audit Act* was repealed and replaced by the *Financial Management Act*, effective 1 April 1995.

Section 27 of the *Financial Administration and Audit Act* provided for an internal audit organisation to be established for a department which was to perform the functions and duties as directed by the accountable officer. The role of this organisation was to appraise the departmental financial administration and its effectiveness on a regular basis.

The *Finance Administration and Audit Act* also specified the duties of each accountable officer (departmental head), which included section 26(b):

that procedures within the department are such as will at all times afford a proper control over expenditures, receipts and public property.

determine their internal audit needs on an annual basis by reviewing their activities and targeting the areas of critical need for review.

The Internal Audit Bureau assists in this process, by offering the larger clients a strategic audit planning exercise. This is a risk based methodology that identifies high audit priorities.

The allocation of audit resources to clients is based on client size, ie. budget, functions, current priority needs, etc.

The Internal Audit Bureau undertakes operational reviews, performance, efficiency and effectiveness audits and reviews, special investigations, compliance and internal control audits and project implementation advice.

The role and charter of the Internal Audit Bureau was outlined in Treasurer's Directions 17 established under the *Financial Administration and Audit Act*.

17.4 The role of the Internal Audit Bureau is that of a specialist adviser to management, providing information upon the adequacy of internal controls within the organisation. It has developed the internal audit function in accordance with principles agreed upon between the Accountable Officer of each department and the Public Service Commissioner's Office and maintains the function in accordance with accepted standards of internal auditing.

17.5 To enable internal audit to provide maximum service to management, the Bureau works under the following charter:

- (a) it shall report, on all internal and audit matters, to the Accountable Officer or to such of his employees 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 efforts made to keep them current;
 - (iv) ascertaining the extent to which Territory Government assets are safeguarded;
 - (v) appraising the quality of performance in carrying out assigned responsibility;
 - (vi) maintaining a high standard of personal relations between members of the Bureau and other employees;
- (c) it shall advise methods considered inadequate, or capable of improvements, together with recommendations to remedy the faults and prevent their recurrence;

7.2. Internal Audit Bureau

A strategic organisational review of the Internal Audit Bureau was undertaken by a local accounting firm. This review questioned how the Internal Audit Bureau could be more pro-active and add value to service wide issues.

The Northern Territory Government identified the need to continue with a broad based internal audit service for Government and report to Chief Executive Officers. This has been achieved by downsizing the existing Internal Audit structure and involving the private sector in delivering the audit program. A management advisory group has been established to work with a wider perspective of service wide issues, including program evaluation and reviews.

7.3. Fraud Control Policy

In response to concerns expressed by the Auditor-General, the Internal Audit Bureau established an inter-agency working party, chaired by the Department of Chief Minister, with representation from the Departments of Law, Police, Office of the Commissioner for Public Employment and Department of Transport and Works. The Working Party consulted widely with the Commonwealth, state governments and the private sector. A policy was developed and approved by Cabinet. (Refer Appendix 4)

7.4. Program Evaluation and Review

Accountable Officers are responsible for planning and managing program evaluations at least once every triennium, or more if requested by the respective Minister. These reviews are independent to the audits that the Auditor-General may conduct.

Results of these reviews are to be reported in the Agency's annual report.

A suggested model has been provided in the Treasurer's Directions (part 3, section 4, previously section 9.)

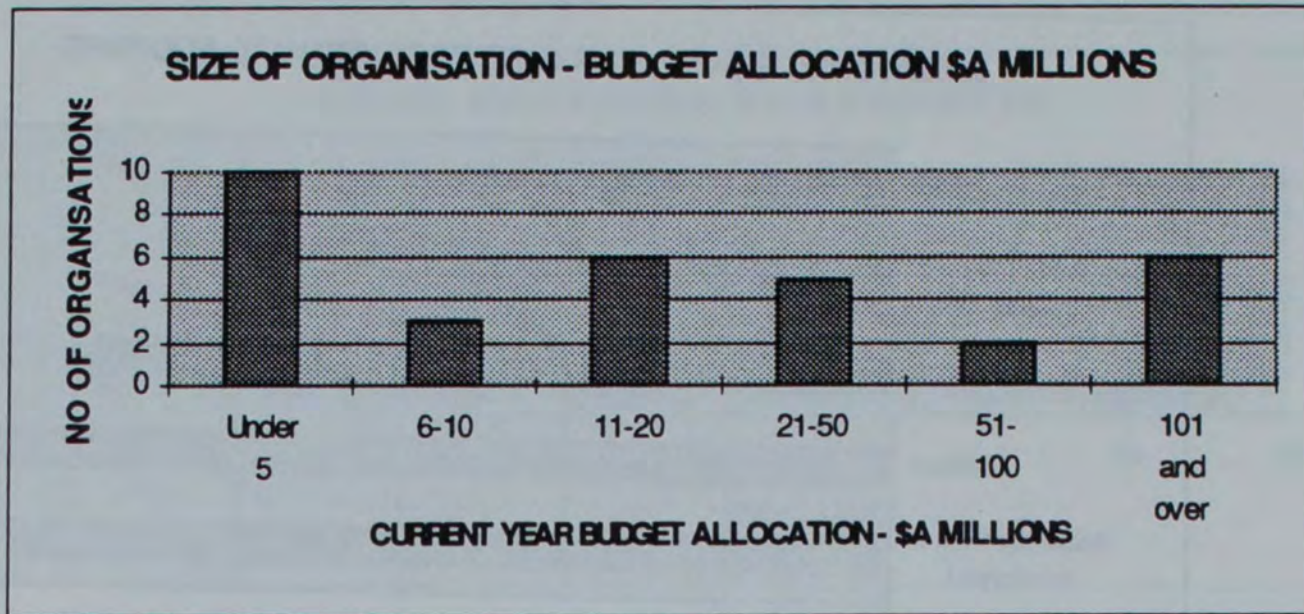


Table 3: Size of organisation in terms of current annual budget allocation

8.1.2. Perceptions of Internal Audit

UNDERSTANDING OF THE INTERNAL AUDIT FUNCTION		
	No. of Respondents	% of Total Survey
<i>Independent appraisal of internal control.</i>	29	91%
<i>Safeguarding assets and prevention and detection of fraud.</i>	18	56%
<i>An independent review of the efficient operation of the organisation.</i>	20	63%
<i>An independent evaluation of the effectiveness of management.</i>	12	38%
<i>An internal consultant to management.</i>	16	50%
<i>Provision of specialised audit services.</i>	16	50%
<i>Examination of financial statements.</i>	8	25%
<i>Other specified.</i>	2	6%

Table 4: CEOs understanding of internal audit function

Most CEOs recognised the role of internal audit as an independent appraisal of internal control - 91% of the CEOs responded positively to this statement. The review process of the operation of the organisation was recognised as a role by 20 respondents or 63%. The custodial role of safeguarding assets and fraud detection was identified by 18 organisations as an internal audit function. The more participative roles of evaluation of effectiveness and internal consultant were less recognised, having only 50% of the CEOs seeing this as an internal audit function. The category "Other specified" were detection of fraud only if reporting direct to management and if the audit were to be completed thoroughly, a respondent thought all areas should be covered equally.

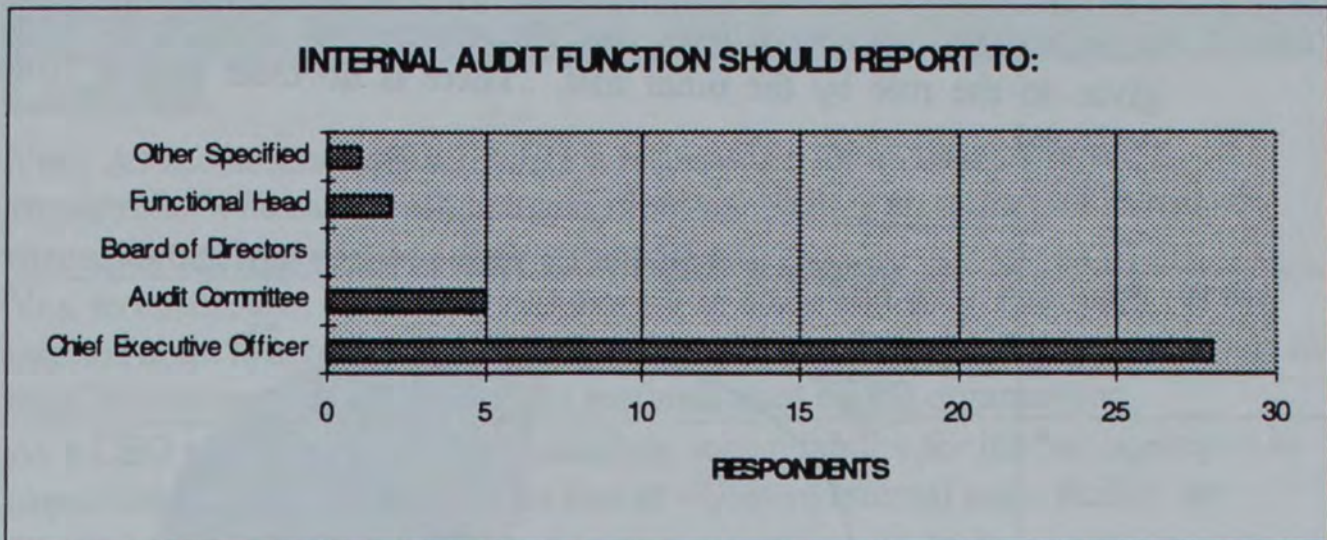


Table 7: Lines of Reporting

To the question to whom an effective Internal Audit function should report to, a high percentage of the CEOs considered the internal audit function should report direct to CEO of that organisation - 88% (28 organisations) of the respondents. Only 16% of respondents (5 organisations) considered the Internal Audit function should report to the audit committee. None of the CEOs surveyed considered the Internal Auditor function should report to the Board of Directors.

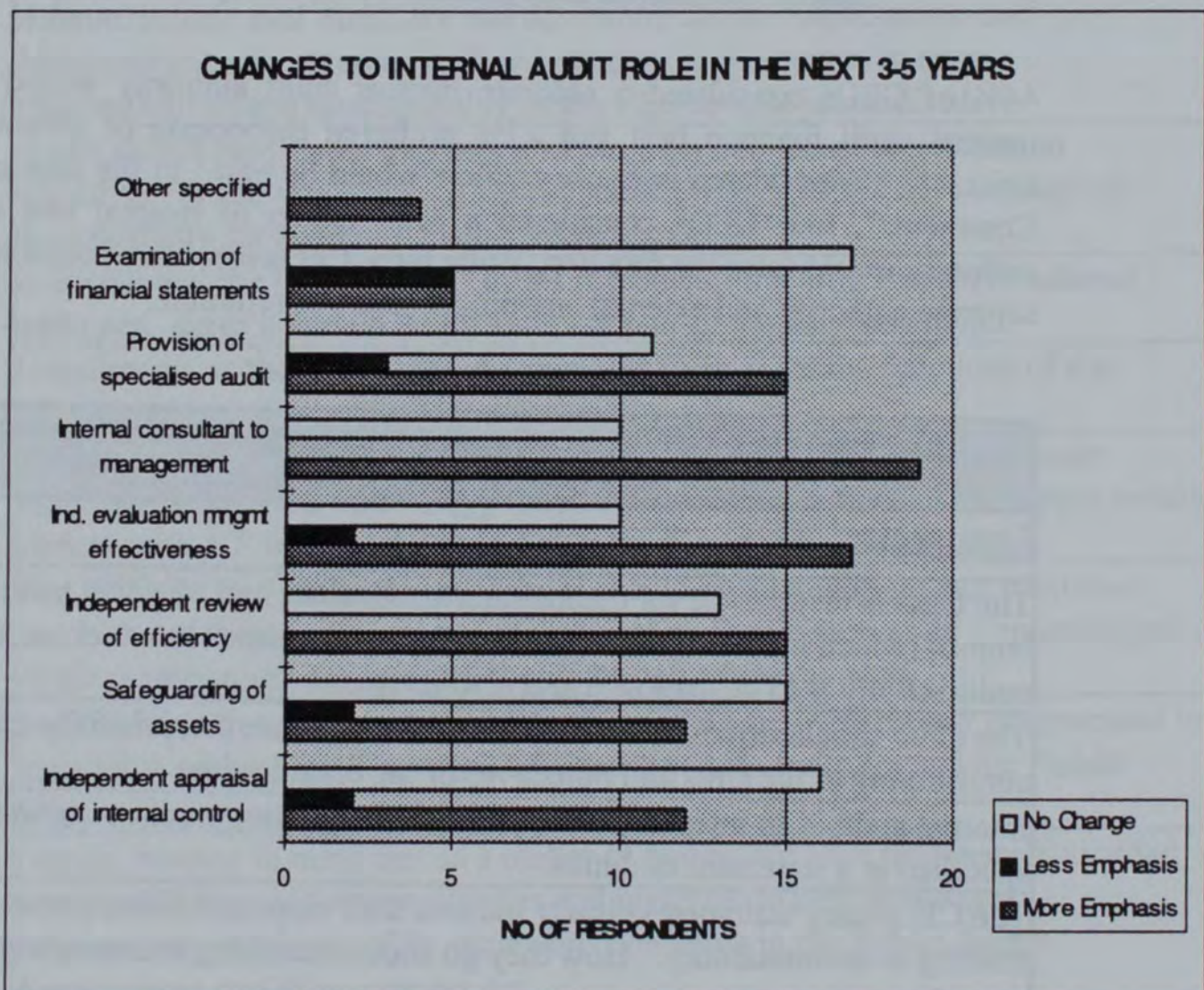


Table 8: Indication of the roles which may be given greater/lesser emphasis to any changes in the role of internal audit in the next 3 - 5 years

CEOs' responses were inconsistent when surveyed for indications of emphasis on future roles of the internal audit function. In the majority of cases, for each role,

Chief Executive Officer's Internal Audit Responsibilities should be a Prominent Part of their Statement Duties
Comments:
Yes - As accountable officer, CEO is responsible for all aspects of the Department's financial management. Internal audit is an important aspect of managing an organisation's resources efficiently.
Yes, to ensure that correct procedures are in place and do in fact work. If the internal audit is across all activities they should be offering independent advice to the CEO on ways of improving the methods used by the organisation.
As a CEO is responsible for the complete accountability for his/her agency, it is important that an audit committee and an effective internal audit facility are prominent.
Under the new <i>Finance (sic) Administration and Audit Act</i> the audit function for departments is legislated, and as the CEO is ultimately the responsible officer for the department it is not considered necessary to include specific audit instructions of the CEOs.
No, this should all be part of effective management.
Whilst it should be in the statement of duties, I don't see that it should be prominent.
A CEOs responsibilities and accountability are well documented in the <i>Financial Administration and Audit Act</i> and the <i>Public Sector Employment and Management Act</i> . Internal audit is a strategy implemented to ensure responsibilities and accountability of the CEO are not jeopardised.
Audit should provide an evaluation of program outcomes, in addition to effectiveness and efficiency. As accountable officers, CEOs have an implicit responsibility for audit as a management resource.
It is vital that the CEO is aware of his responsibilities with respect to internal audit and agree it should be a prominent part of the duty statement
It is already, as the CEO is the Accountable Officer for the functions of the Agency.
This responsibility already occurs in Agency. In addition to Internal Audit functions, a Senior Officer is appointed as Executive Auditor. This person liaises closely with NT Internal Audit and also conducts audits.
The CEO internal audit responsibilities should be an important part of his/her statement of duties. The role of the internal auditor is seen as an important part of the management process and should be considered as such.
No, the functions and responsibilities of the CEO are quite clearly documented in legislation such as the <i>Financial Administration & Audit Act</i> and the <i>Public Service Employment and Management Act</i> .
I agree, bearing in mind that as a matter of policy, we have deliberately avoided over specifying such responsibilities and preferred to rely on the clear responsibility /accountability statements contained in the <i>Public Sector Employment and Management Act</i> .
The Chief Executive Officer is required to ensure that audit responsibilities are carried out in his agency as a requirement under <i>the Public Sector Employment and Management Act</i> and the <i>Financial Administration & Audit Act</i> .

Aspects of the Internal Audit Service Provided to Organisations
Comments:
NT Internal Audit are currently supplying 700 hours of audit service. Because of the complexity of some planned audits the audit is quite often briefed out to private consultants.
The Internal Audit Bureau has had a very difficult life in the last few years viz. inadequate resources, staffing problems, etc. This has detracted from their performance generally and the recent announcement to outsource work will probably help.
The conduct of the work in recent years has been very professional and competent.
The availability of Internal Audit resources is sufficient for our needs.

Table 11: Other comments on any aspect of the internal audit service provided to organisations

8.1.3. Activities

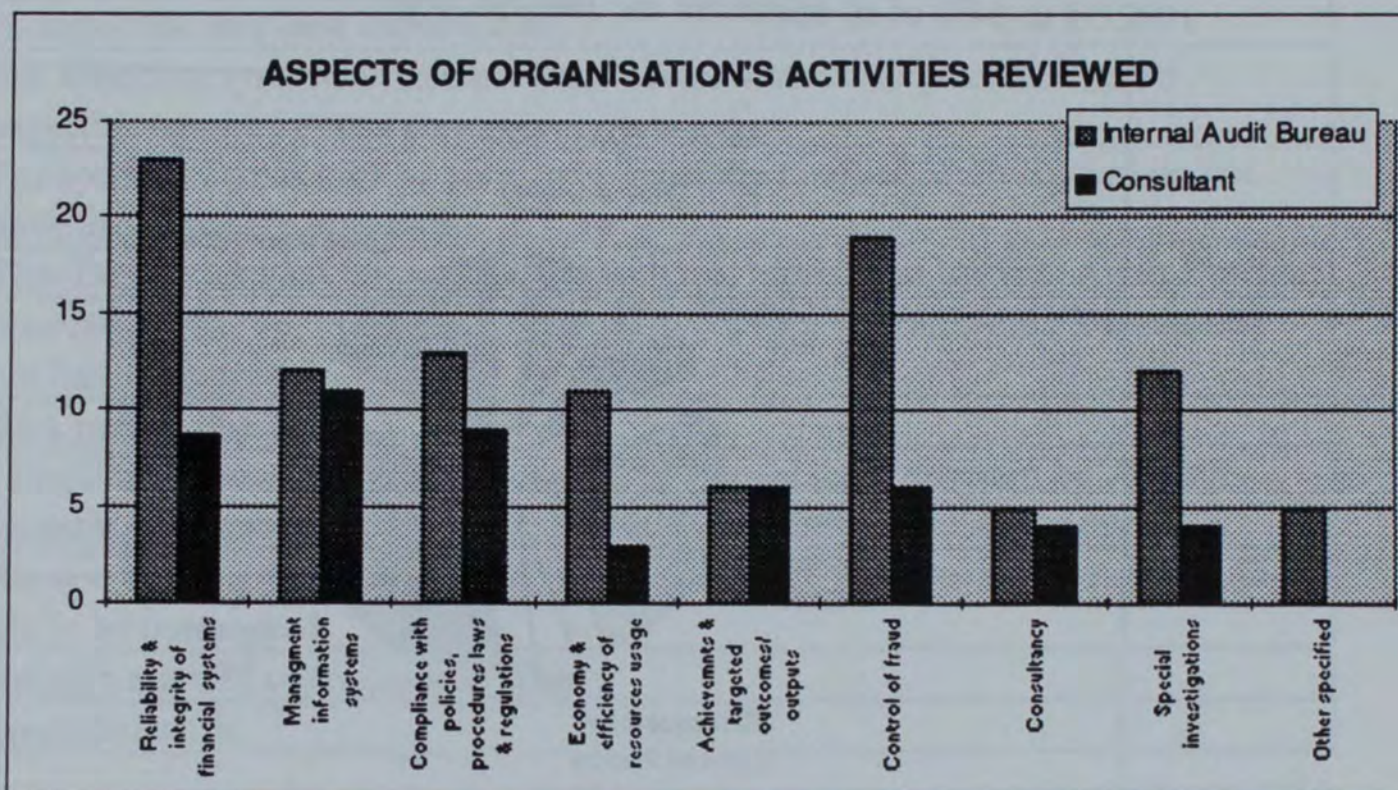


Table 12: Aspects of organisations activities reviewed by the Internal Audit Bureau or a consultant

Overall the Internal Audit Bureau is reviewing a wider range of organisational activities than consultants. The Internal Audit Bureau is used by agencies predominantly in the areas of control, ie. review the reliability of the financial systems and the control of fraud. In compliance and efficiency audits, the Internal Audit Bureau was used more than consultants.

Reasons for Engaging (or Likelihood of Engaging) a Consultant rather than the Internal Audit Bureau
Comments:
Specialist expertise.
In the circumstances of this Office it is both appropriate and convenient to task a private sector authorised auditor to perform the same compliance audit of the Office as is performed upon all other audits.
Where apparent internal audit does not have relevant expertise.
Done in consultation with the Internal Audit Bureau. Most likely Internal Audit Bureau would hire the consultant for us.
Some operational matters.
Where specific expertise was not available.
For specialist audits.
Urgent requirement when Internal Audit Bureau resources may not be available and only if the need arose.
If particular industry knowledge was needed to review a program.
Consultants are used as part of the Auditor-General's function.
In areas that they lack expertise in.
For specialist systems if Internal Audit Bureau unable to provide level of expertise required.
For specialist areas such as computers whereby Internal Audit Bureau do not have the necessary resources.
This Department has not engaged consultants rather than Internal Audit Bureau.
Specialist areas eg. Information Systems etc where Internal Audit Bureau may not have expertise.
As a further check.
Consultant only utilised as part of planned annual audit program by Auditor-General. Department uses internal audit for conduct of audit programs.
Review of strategic planning and Human Resource Management issues would likely be outsourced.
Require audit of overseas activities.
Specialist skills.

Table 15: Reasons for engaging (or the likelihood or engaging) a consultant rather than the Internal Audit Bureau

Auditor - General Access
With the exception of consultancy reports pertaining to: <ol style="list-style-type: none"> 1. investigations conducted pursuant to the Ombudsman (Northern Territory) Act, and 2. investigations conducted pursuant to the NT/ Commonwealth Ombudsman, fee for service agency agreement.
The Department has no opposition to the Auditor-General having an oversight of Audit or consultancy reports.
Departments should encourage independent review of their actions.
If the audit process is to be used as a management tool, the provision of such reports is essential.
To ensure uniformity of findings and audit programs and methodology there is no reason why the Auditor-General or his auditors should not have access to internal audit reports, also save duplication of resources.
Matters may relate to the Auditor-General's responsibility for assessing financial performance, and under the proposed new <i>Audit Act</i> , the operating performance system of an Agency.
Internal audit reports and the responses to them can affect the scope of external audits. Not all consultants' reports necessarily affect matters that are relevant to the external auditor.
To enable full understanding of our operations.
Auditor-General should not have automatic access but should acquire the reports through the CEO.

Table 17: Reason given for the Auditor-General's access to Internal Audit Reports and consultancy reports

8.1.4. Accounting and Property Manuals

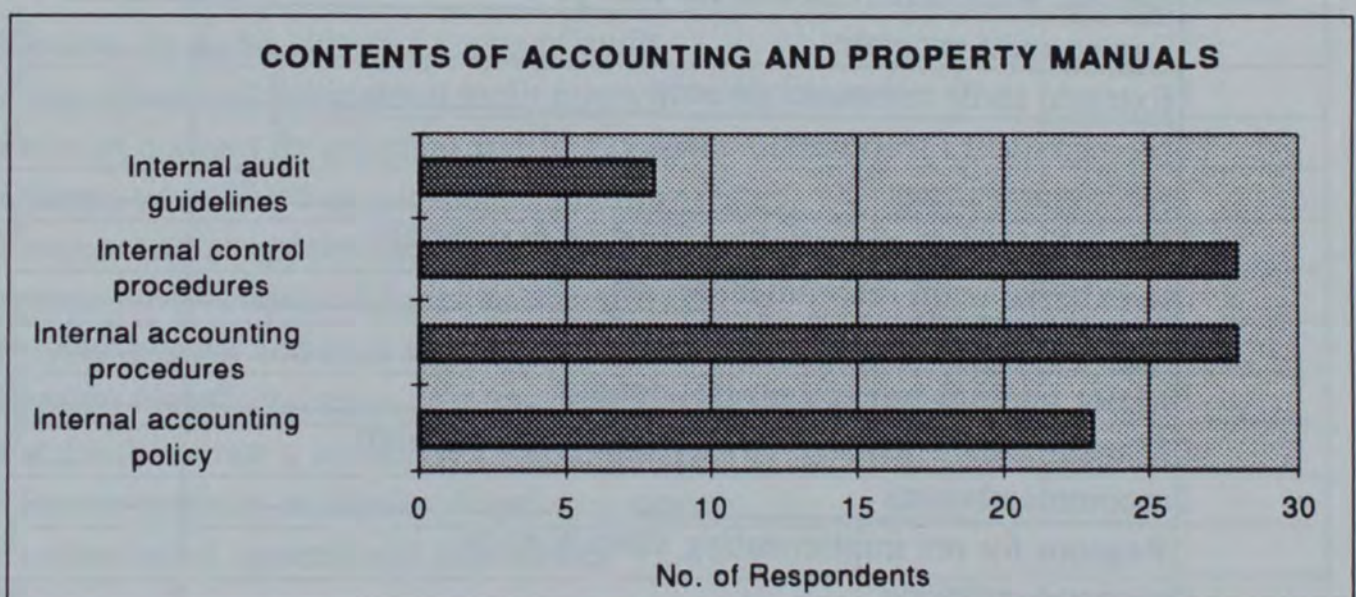


Table 18: Accounting and Property Manual document contents

Accounting and Property manuals contained internal accounting procedures and internal control procedures in 28 of the organisations surveyed. 23 organisations also had internal accounting policies in their manuals. Only 8 organisations had internal audit guidelines in the manuals.

conducted in the future, and two organisations responded that they currently did not include audit in the annual reports but would look at doing so in the future.

8.1.7. Audit Committee

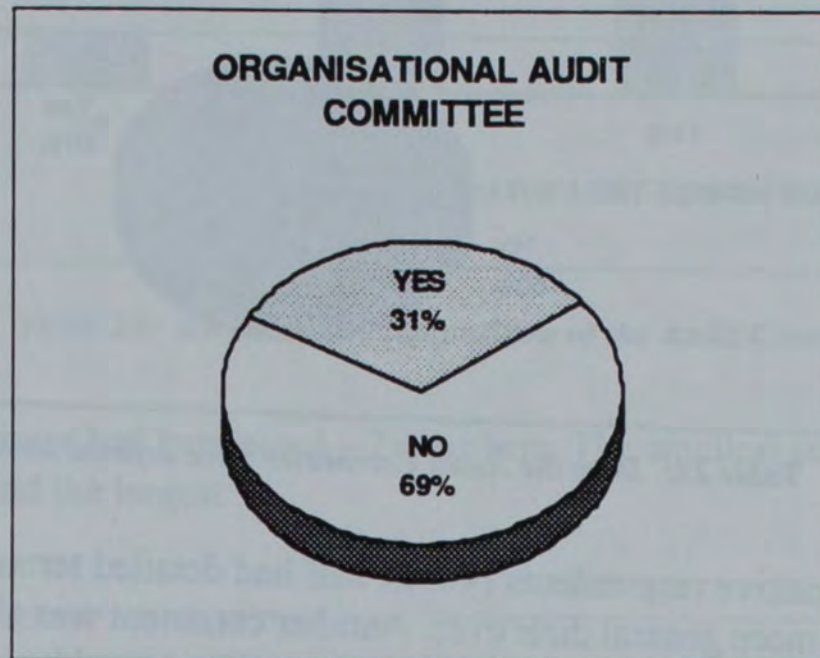


Table 21: Does the organisation have an audit committee?

Only 31% of the organisations surveyed had an audit committee in place. Two organisations responded that they are in the process of establishing an audit committee.

Role of Audit Committee	
	No. of Respondents
Review the audit plan and scope of audit	7
Point of contact for internal audit interviews and reports	4
Point of contact for external audit interviews and reports	5
Discuss unresolved accounting or auditing issues	7
Review and/or approve accounting policy	4
Assess performance of financial management	6
Review budget and cash flows	4
Review the effectiveness of management information systems	3
Establish/review a corporate code of conduct	2
Monitor policies in relation to privacy matters	2
Review equal opportunity procedures	2
Review policies on sensitive issues	2
Review policies relating to conflict of interest	2
Misconduct and fraud	5
Other specified	5

Table 22: What is the role of the audit committee?

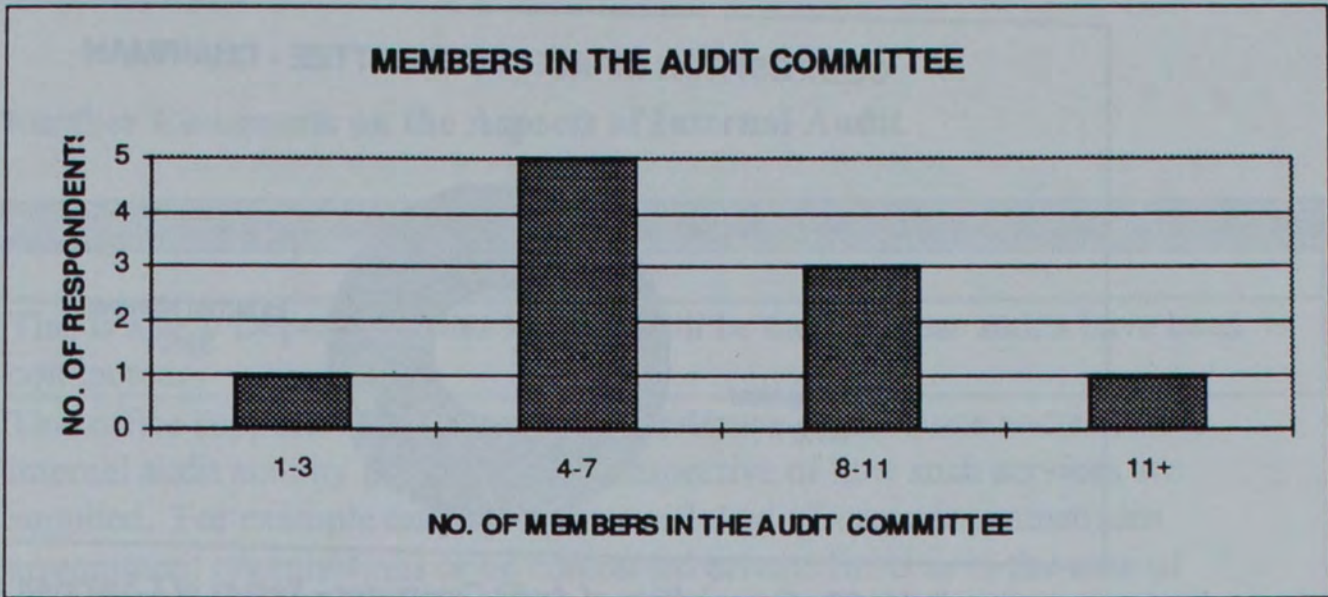


Table 25: Details of the composition of the Audit Committee.

Most committees had between 4 - 7 members. The smallest committee comprised 3 members and the largest 12.

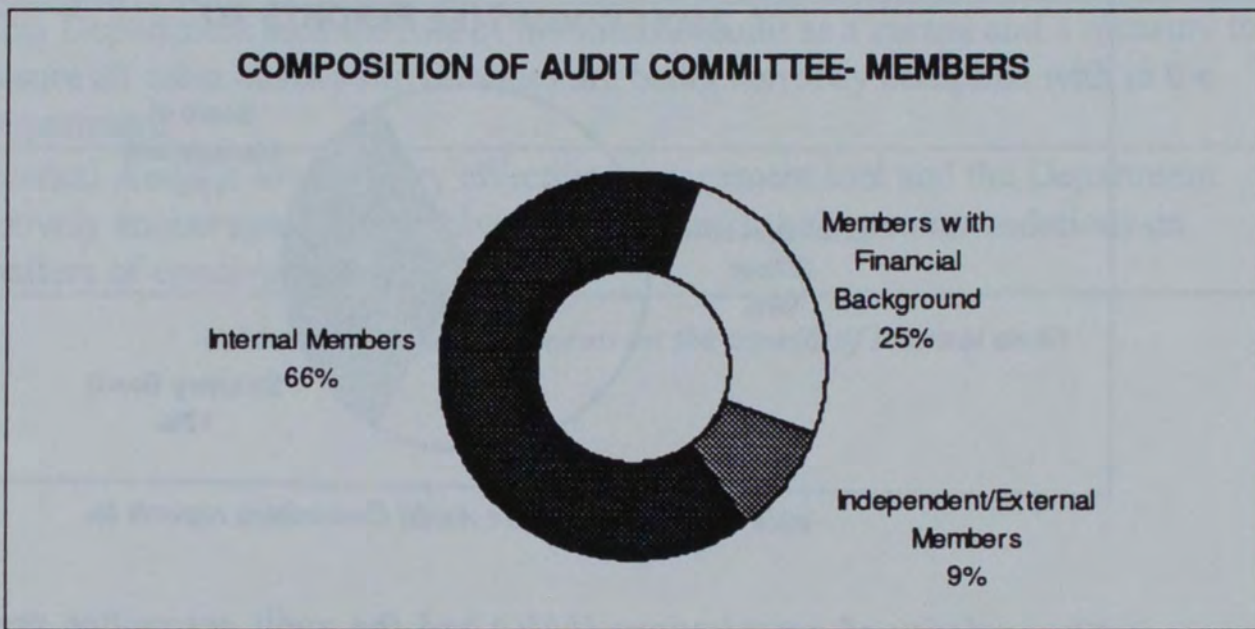


Table 26: Composition of the Audit Committee - Survey of Members

Internal members made up 66% of the audit committee members. 25% of the members had a financial background and 9% were independent or external.

8.1.8. Further Comments on the Aspects of Internal Audit

Further Comments on the Aspects of Internal Audit
This is a new Department and 1994-95 will be the first year audits have been conducted.
This office supports strongly and places reliance on adequate and effective internal audit activity in its auditees irrespective of how such services are supplied. For example only by the Internal Audit Bureau in mainstream government organisations or be contracted private firms as in the case of Territory Insurance Office.
Considering external auditors have access to Board minutes and other confidential information, it is appropriate that they have access to these reports.
I consider the work done by Internal Audit Bureau on issues such as developing a Fraud Policy to be appropriate and useful. This Office has had involvement with the Internal Audit Bureau in organisational review activities and that also is appropriate and useful.
This Department sees the role of the internal audit as a means and a measure to ensure all cross checks and balances are being correctly complied with in the Department.
Internal Audit is seen as very effective management tool and the Department actively encourages their involvement and seeks their recommendations on matters of concern.

Table 29: Further comments on the aspects of internal audit

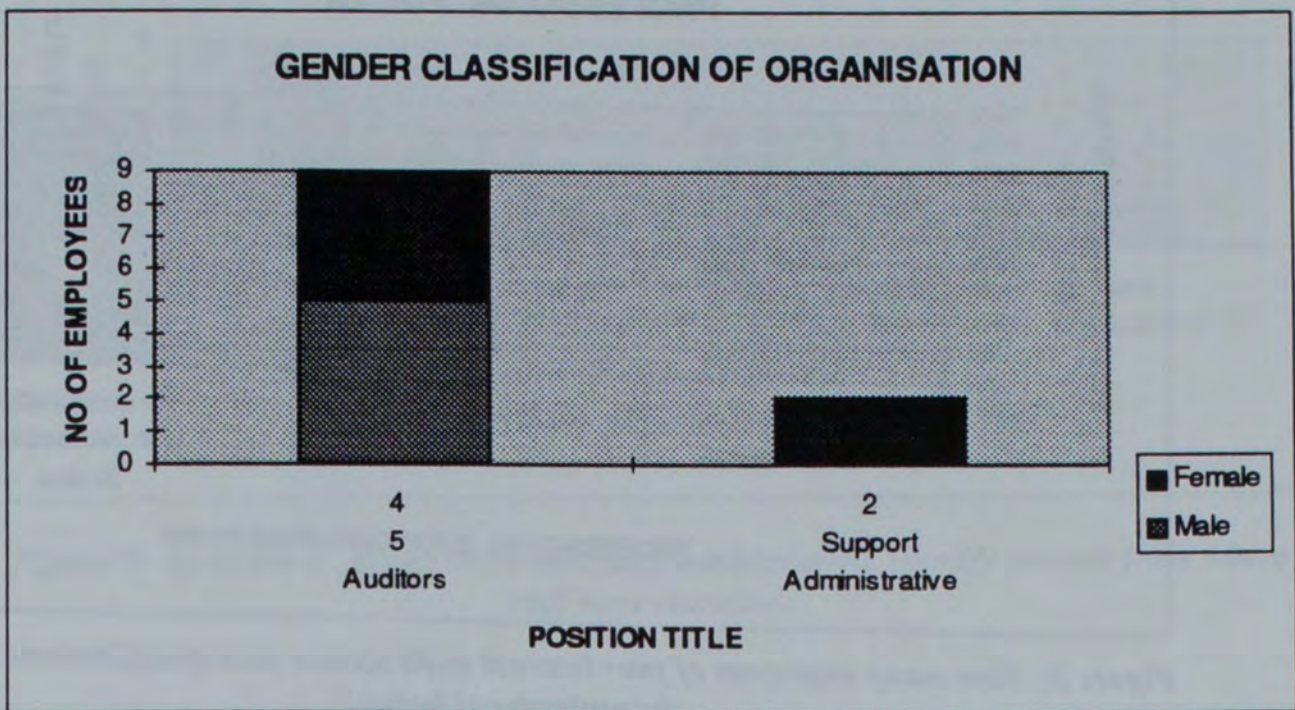


Figure 3: Classification of organisation (by numbers and gender)

Of the nine auditing positions four were occupied by females and five were male. Both support staff were female.

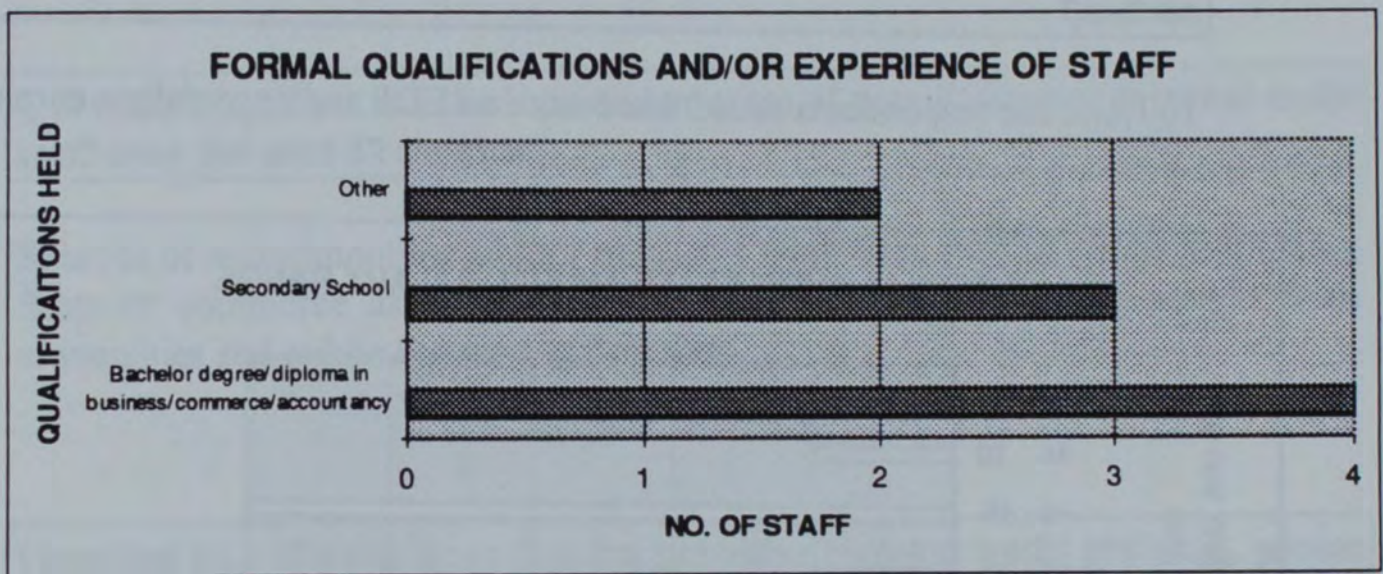


Figure 4: What are the resources of your internal audit section in terms of formally qualified and/or experienced staff?

The majority of internal audit auditing staff held formal qualifications. Two staff members were currently undertaking tertiary studies. These statistics do not include the Director or Administrative support staff.

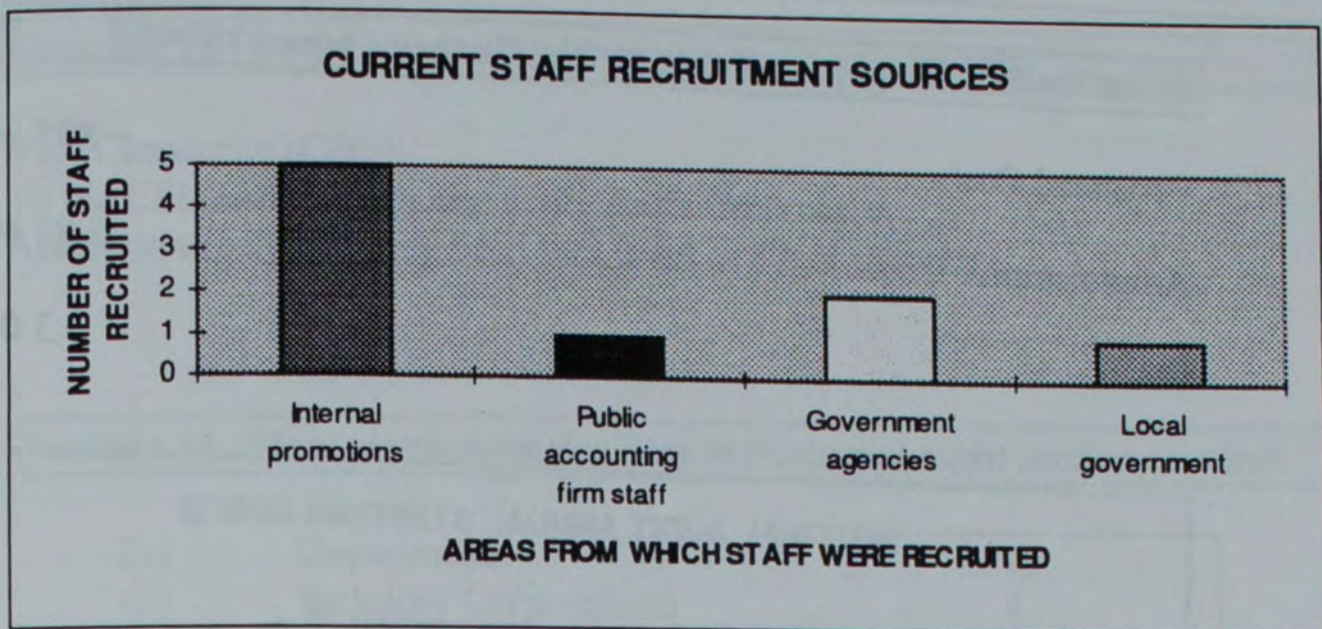


Figure 7: Question 8. Based on current staff establishment, identify sources from where staff were recruited.

Question 9. What is the preferred standard of qualification for internal audit staff?

All respondents indicated a professional accountancy qualifications or other university degree.

Question 10. What are the intended sources of recruitment of internal audit staff over the next 12 months?

Sources of recruitment for auditor managers were from staff of public accounting firms or commerce and industry. Auditors recruited were being sought from universities and public accounting firm staff.

Question 11. If your organisation provides internal audit training, please indicate the type of training.

It was indicated the majority of respondents had

- on-the-job training,
- formal in-house training programs
- formal outside training
- programs seminars and conferences
- and other - CPA self study

Question 15. To whom does the internal audit unit report?

Vice Chancellor (CEO)

To the CEO and through him to the Audit Committee.

Administratively - Deputy Secretary, Dept of Chief Minister

Question 16. How many Agencies does the internal audit section service?

(a)	Departments	17
(b)	Statutory Corporations	8
(c)	Branches/Divisions	19

Question 17. Does your internal audit section prepare:

	Yes	No
(a) an audit plan with long-term and short-term goals	100%	0%
(b) detailed audit programs to address the areas covered by audit plan?	65%	35%
(c) time budgets schedules for the entire year?	65%	35%

INTERNAL AUDIT SECTION AVERAGE TIME ALLOCATIONS

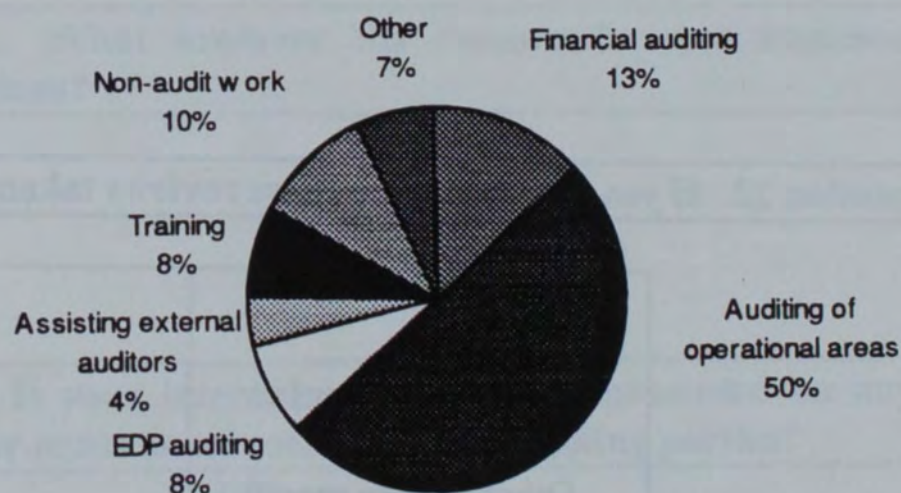


Figure 9: Question 18. Internal Audit Section Average Time Allocations

Question 23. Who conducted the most recent review?

	<i>% of Total Respondents</i>
Internal	0%
Auditor-General	65%
Outsourced	35%
Other	University Council Audit Committee

Question 24. What recommendations (if any) have emerged from the review(s)?

That the Audit Committee approve the Internal Audit program.

That the External Auditor be advised of the program.

N/A. No review conducted.

Question 25. What is/was the response of the internal audit section to the recommendations?

Have implemented the recommendations.

N/A. No review conducted.

Question 26. What are/were the reasons for not implementing any recommendations?

N/A

Question 27. Is your internal audit section represented on any advisory, promotional or educational committees or working parties?

Yes	65%
No	35%

The policy of the internal audit section is to prepare reports on each auditable unit it reviews. These reports focus on those findings/matters which can improve performances and add value not merely for the compliance aspects of audits.

We aim, through the audit process, to add value to client operations. Recommendations made to clients are focussed on improvement of client operations and systems. The adding value philosophy is not only adopted in specific audit assignments, but on a day to day basis in the provision of advice to client organisations. In addition, such initiatives as the development of the fraud control policy for Government are seen as "adding value" across the public sector.

Question 32. Please provide comments on the adequacy of the *Financial Administration and Audit Act* and Treasurer's Directions in relation to the internal audit function.

This is administered by the External Auditor. The internal auditor concentrates on areas of concern that management has. The Act is obviously a guide.

The *Financial Administration and Audit Act* and Treasurer's Directions do not adequately deal with the internal audit function. Section 27 of the *Financial Administration and Audit Act* merely requires the organisation to report upon the internal audit function of the organisation as required by the Treasurer.

The Act should require the existence of an internal audit function in each organisation, even if that function is to be outsourced. The Act should also set out the independence requirements of the internal audit function.

The proposed revision of the *Financial Administration and Audit Act* and particularly in having the Act split into three, ie. Finance, Audit and Procurement will provide a far clearer definition of roles and is seen to be a major step forward. The proposal to require Chief Executive Officers to have an internal audit capability is also seen as positively contributing to improved management practices in the Northern Territory Public Sector.

8.2.3. Outsourcing

Question 33. Has your internal audit section outsourced any of its internal audit function/program?

Yes	65%
No	35%

Question 37. How was the internal audit provider chosen? eg. tendering process.

By a tender process although limited due to perceived conflict of interest with several firms.

Expressions of interest were sought in the local press. Competitive tenders are generally sought for each audit assignment.

Question 38. When was the internal audit outsourced?

1991

Consultants were first engaged in 1990.

Question 39. What was the objective for outsourcing the internal audit function/program?

OBJECTIVE	% of No of Total Responses
Concentrate on core activities	65
Solve an immediate problem	
Acquire skills	65
Lack of in-house expertise	65
Comply with Government policy	35
Add value to client services	35

Question 40. Do you have terms for the outsourcing agreement?

- Yes
- Specific Terms of Reference plus standard Terms and Conditions of engagement for each assignment given to the private sector.

Question 46. If yes, what benchmarks are applied?

- The present contract is renegotiated on a biannual basis. At this time the proposed annual fee is compared to alternatives, including the provision of internal audit services in-house.
- Competitively offering to a number of firms.

Question 47. Are there any confidentiality and security provisions incorporated within the contract?

Yes	50%
No	50%

However, the internal audit charter stipulates confidentiality and security provisions and all staff members at (private accounting firm) are required to sign a declaration noting the requirement to keep all client information confidential.

Question 48. How many equivalent full time positions were removed due to the outsourcing of the internal audit function?

A total of eleven positions

Question 49. Has a post implementation review been undertaken?

Yes	50%
No	50%

Question 50. What performance measures have been developed to assess the effectiveness of outsourcing?

No specific reserves other than the continual review by the CEO and Audit committee of reports and the regular preparation of status reports by the Internal Audit.

Quality review of files.

Analysis of services provided by private sector.

Cost comparison of in-house resources versus outsourcing.

LIST OF AGENCIES SURVEYED

Business Bureau

Agribank

Department of the Chief Minister

Former Department of Lands, Housing & Local Government

now Department of Lands, Planning and Environment

Department of Housing and Local Government

Department of Transport & Works

Office of the Commissioner for Public Employment

Northern Territory Treasury

APPENDICES

Former Department of Law

now Northern Territory Attorney-General's Department

Office of Courts Administration

Department of Primary Industry & Fisheries

Former Department of Health & Community Services

now Territory Health Services

Department of Education

Police Force of the Northern Territory

Former Department of Industries & Development

now Department of Asian Relations, Trade and Industry

Conservation Commission of the Northern Territory

Northern Territory Tourism Commission

Liquor Commission

Lottery and Gaming Authority

Catholics' Office

LIST OF AGENCIES SURVEYED

Responses Received

Agencies

Department of the Chief Minister

former Department of Lands, Housing & Local Government
now Department of Lands, Planning and Environment/
Department of Housing and Local Government

Department of Transport & Works

Office of the Commissioner for Public Employment

Northern Territory Treasury

Department of Mines & Energy

former Department of Law
now Northern Territory Attorney-General's Department

Office of Courts Administration

Department of Primary Industry & Fisheries

former Department of Health & Community Services
now Territory Health Services

Department of Education

Police Force of the Northern Territory

former Department of Industries & Development
now Department of Asian Relations, Trade and Industry

Conservation Commission of the Northern Territory

Northern Territory Tourism Commission

Liquor Commission

Racing and Gaming Authority

Ombudsman's Office



Leaders in Performance Auditing

**ADDRESS TO
'STRATEGIC AND MANAGEMENT REVIEW' SEMINAR**

"REVIEWS"

By Des Pearson

Auditor General for Western Australia

September 21, 1995

Beaufort Hotel Darwin NT

Northern Territory Public Sector Accounting Group Inc.

Sponsored by Northern Territory Public Accounts Committee

In the 1990s in the Western Australian private and public sector there emerged major challenges to traditional ways of structuring and managing organisations, and in the exercise of accountability.

It was no different nationally or internationally.

Faced with economic circumstances that necessitated resource rationing and the allocation of priorities to every level of activity and a more informed and demanding community that sought greater accountability in both sectors, governments for their own survival were forced to respond with a range of measures.

Issues such as FOI, Parliamentary review, Royal Commissions, administrative appeals, and the role and independence of auditors-general, meant government became "transparent".

In the public sector traditional centralised command and control bureaucracies were steadily replaced with more flexible and responsive structures in which greater emphasis was placed on the ability of the agency and the people within them to deliver responsive, quality services in a climate of continuous improvement.

The new structures and approaches in turn provided their own challenges for public sector accountability - as it dawned on senior management that all organisations, whether public or private, need to be ultimately accountable to the community in which they exist. However now it was necessary for this accountability to be exercised in a way which supported and did not inhibit the effective management of the organisation.

Broadly, the need for greater public sector accountability obviously stemmed from the fact that, in WA at least, most agencies had a stated mission and goals actualised in programs - in other words they exist and are given resources in order to provide value to the community in specified ways.

The community thus has a right to an assurance that the programs to which their hard-earned dollars have been allocated have a clear and relevant purpose, that those programs are being run efficiently and are effective in providing value for their money, and that the highest standards of ethics are being maintained by those who have been entrusted with administering the programs.

Agencies then are accountable in two broad areas.

Firstly for the quality of outcomes - that is, for the service delivered and this specifically from the recipients' perspective, *not* from the providers!

Secondly, for the quality of process - that is, how well an agency conforms to the "rules", laid down by government, that determine the way it operates, and especially the ethical rules.

Steve Sedgwick in his address to the Senate Standing Committee on Finance and Public Administration conference on Public Sector Reform summarised the scenario thus:

In the WA public sector accountability for performance is initially formalised through such things as:

The FAAA, sections 53 and 55,
CEO performance agreements,
The new Public Sector Management Act,
Workplace and Enterprise Bargaining Agreements, and
initiatives such as net appropriations and competitive tendering.

Performance management thus can provide a basis for management improvement through:

- ♦ the development of explicit agreements between management levels, which clearly define program objectives and expected results;
- ♦ the improvement of accountability processes so those given authority and responsibility are held to account for the results achieved;
- ♦ the decentralisation of management based on performance and resource agreements, thereby reducing the need for external controls and micro management. This also will free senior executives for more strategic decision making;
- ♦ better informed decision making based on clearer program objectives, more comprehensive information on program performance and a better understanding of alternatives;
- ♦ defining the cost of delivering services through reviews of the relationships between resource levels and the level and quality of services; and
- ♦ a better basis for budget decisions, ensuring that scarce resources are allocated to the most cost-effective programs in accordance with established priorities.

Performance management has several major elements, including:

- ♦ performance monitoring This is the on-going monitoring of programs to improve their effectiveness and efficiency, respond to changing client needs and circumstances and provide early warning of potential problems;
- ♦ program evaluation- the systematic and rigorous review of a program at specific points to assess it is still relevant to the need or problem it was designed to address. This review should also analyse the extent to which it is meeting its objectives and whether it is the most cost-effective means of addressing the problem or need; and
- ♦ performance reporting, - information gathered to satisfy accountability requirements.

Each of the elements ensures the community receives the best possible quality and level of service at least cost. The challenge for public sector managers is making performance management an integral part of everyday operations.

In WA, performance is monitored, measures reviewed and evaluated at three levels:

These reviews can be broadly grouped as:

Performance Examinations; or
Control and Compliance Examinations

Since 1991 the Office has undertaken 28 examinations, covering a wide variety of issues, with 11 being completed and reported to Parliament in the last financial year.

These reports, and their consequent impact on the Office's clients, can be categorised as:

Facilitative/Educative; and
Informative/Opinionative (or direct reporting)

In other words they can have a broad thrust, or be very specific.

FACILITATIVE/EDUCATIVE REPORTS are basically designed to assess the current state of any particular public sector wide issue and promote improvement in management practice. In general they do not identify individual agencies, although this is not always the case.

Some examples in this category are:

Government Corporate Card Usage Follow-up Examination 1995.

In 1993 two examinations were conducted covering the expected realisation of efficiencies and savings from corporate card usage, and the controls applied to the card.

These examinations found that the expected savings had been easily exceeded but the potential existed for greater use, and that many agencies needed to improve controls over corporate cards to prevent error or abuse.

The 1995 follow-up review found a significant increase in the number of agencies using the card, with the number of transactions increasing by about 20,000 to 95,000 per year. Total savings since the introduction of the card were estimated at \$8 million.

Controls over the card's use were found to be satisfactory in most agencies.

The benefits of usage were outlined and recommendations made to encourage increased usage to the benefit of agencies and government.

Public Sector Travel. Follow-up Examination 1995.

A November 1993 report found deficiencies in the approving, monitoring and reporting of travel and identified scope for greater use of discount airfares.

The 1995 examination found that whilst management of travel at some agencies had improved, potential for efficiency savings through better practices still exists at most agencies.

The report identified the new and emerging issue of the accumulation of "frequent flier" points and the implications that has for agency management, and most importantly expressed concern that some agencies were reporting budgeted travel costs rather than actual costs in their quarterly travel returns to Parliament. This reporting practice was condemned as misleading.

INFORMATIVE/OPINIONATIVE (OR DIRECT REPORTING) REPORTS are agency- or issue-specific and designed to provide information on the performance of particular agencies' administration and program management.

As shortcomings in aspects of agency operation are generally identified and perhaps draw adverse comment, these reports need to be carefully crafted with maximum consultation occurring at all relevant levels in order to achieve positive outcomes and create the win/win situation that is desired in these circumstances.

With careful consultation and what could be termed a "conspiratorial", cooperative approach results have been heartening, with significant improvement in management practices. This softly softly, almost behind the scenes approach, with the Office focussed on the objective of improving public sector accountability and facilitating enhanced performance, though not always a profile raiser or headline grabber for the Office, ensures positive results all round. This is the Quiet Achiever end of our business!

Examples that I could give would include:

Risk Management in the Public Sector which lead to government requiring all agencies to identify their business risks and their strategies for addressing those risks.

Management of the Public Bank Account Investments that lead to a review of investment strategy by Treasury and consequently the prospect of increased returns to government.

In fact practices were improved and most recommendations were put in place during the course of the review and in advance of the tabling of the report in Parliament.

Similarly the review of the **Legal Aid Commission** saw that agency implementing a range of measures, identified as necessary early in the process, well before the final report was released.

The CEO and senior management were entirely "on-side" during the examination and enthusiastically welcomed our findings and recommendations.

The result has obviously been a vast improvement in the way legal aid is administered in WA. Importantly the public has been a clear winner.

In a similar vein the examination of the **Police Department Operations Centre**, which highlighted management and administration problems based around police answer and response times to emergency calls via the 000 direct-dial facility, was welcomed by the Commissioner for Police, his senior officers and the Police Minister.

Action has been ongoing and swift, with changes again being implemented during the course of review.

Only recently I met with the Commissioner and Minister who presented a comprehensive four page summary to me of all the initiatives that had been taken in response to the review and its recommendations.

We do this by providing timely, quality information that will enable Parliament to make informed decisions and better carry out its function of ensuring full and proper accountability for taxpayers money, through identifying and then reporting on:

- best practice,
- benchmarks,
- efficiency,
- effectiveness, and
- legal compliance

and by ensuring our reviews are consistent with and help achieve policy aims and objectives, and create the flexibility to respond to a range of governmental and public needs.

Secondly, we seek to generate improved performance by public sector agencies through the more efficient use of resources and the more effective use of resources.

And thirdly we seek to develop expertise in administration and program management for the benefit of the public sector.

In all this I am proud to say we have been successful and this is evidenced in our recent comprehensive Parliamentary and client surveys and in the recent peer review of our Office.

OVERVIEW

One of the primary responsibilities of an Accountable Officer is to ensure that the Agency has an adequate internal control system. Internal control is a management tool designed to provide assurance that systems and controls are working properly. Accountable Officers should ensure that internal control systems are designed and implemented in a way that will improve the performance of the organization.

STATEMENT OF INTENT

1.1.1 The Section provides a statement of intent to the Accountable Officer via dialogue that internal audit responsibilities are as follows:

TREASURER'S DIRECTIONS

PART 3 - RESPONSIBILITIES OF ACCOUNTABLE OFFICERS

Section 2 - Internal Audit

Authorities: *Financial Management Act*

Section

- 3. Interpretation
- 13. Duties of Accountable Officers
- 15. Internal audit

Defined Terms - *Refer to Part 1 Section 2*

- . Accountable Officer
- . Agency
- . employee
- . internal audit
- . internal control

OVERVIEW

One of the primary responsibilities of an Accountable Officer is to ensure his/her Agency has an adequate internal audit capacity. Internal audit is a management tool designed to provide assurance that systems and internal controls operating within Agencies are adequate and effective. It carries out its functions by undertaking audits, reviews and other related tasks for improving the performance of organisations.

STATEMENT OF INTENT

- 3.2.1 This Section provides a framework within which Accountable Officers can discharge their internal audit responsibilities under the Act.

FRAUD CONTROL POLICY

POLICY STATEMENT

It is the Northern Territory Government's policy to minimise the incidence of fraud in the Northern Territory Public Sector through the development, implementation and regular review of a number of proactive systematic strategies designed to:

- place responsibility for fraud control within individual agencies;
- facilitate fraud control training;
- identify fraud risk areas, and fraud materiality;
- advise all employees of their responsibility to report suspected instances of fraud;
- detect, investigate and bring instances of fraud to the notice of competent authority;
- provide a central model fraud control plan which encourages effective fraud management in agencies;
- train selected employees in initial investigative techniques including the recognition of fraud indicators.

NORTHERN TERRITORY PUBLIC SECTOR FRAUD CONTROL POLICY

Fraud is the use of deceit:

- To attain advantage, financial or otherwise;
- To avoid any reasonable obligation; and/or
- To cause loss to any agency, person or organisation.

The Benefits.

The benefits that will accrue from the adoption of this policy will include:

- the bringing to the attention of all employees the issues of fraud prevention, detection and reporting, and the message that fraudulent practices will not be tolerated within the Northern Territory Public Sector;
- the provision of a methodical type approach to fraud control management allowing for better use of limited control resources;
- the ability of the Accountable Officer to be in a far more defensible position, able to demonstrate responsible accountability, should a fraud occur within their organisation.

This policy provides a framework for responsible fraud management in the public sector and makes a positive contribution towards accountability of Government resources.

The implementation of the policy allows for economy of resource utilisation and uniformity of application by centralised development of key aspects of the policy.

1.2 ROLES, RESPONSIBILITIES AND RELATIONSHIPS IN FRAUD MANAGEMENT

The prime role and responsibility in fraud management rests with agencies.

Figure 1 presents in a diagrammatic form the relationship between the prime fraud interest organisations.

Figure 2 details both primary and secondary responsibilities in relation to fraud:

- awareness;
- prevention;
- reporting ;
- investigation; and
- resolution.

FRAUD CONTROL ROLES AND RESPONSIBILITIES

IMPLEMENTATION WORKING PARTY

- Co-ordinate Policy implementation
- Develop centralised models and guidelines

POLICE

- Fraud Investigations
- Prosecute less complex cases
- Refer complex cases to DPP

OPERATIONAL AGENCIES

Primary Responsibility for the preparation and maintenance of a Fraud Control Plan, incorporating:

- Risk Assessment and Action Plan
- Fraud Awareness Education and Training programs
- Reporting and Investigation procedures
- Relationships with other Agencies.

DIRECTOR OF PUBLIC PROSECUTIONS

- Prosecute cases referred by police

INTERNAL AUDIT

- Evaluate Controls
- Advice on Fraud Control Plan, risk assessments and action plans
- Fraud Investigations as requested by CEO's

LAW

- Advice to CEO's on disciplinary action

TREASURY

- Monitor and Revise I-A&A Act/IT's where appropriate
- Advice on systems and controls

CPE

- Code of Conduct
- Ethics
- Penalties

EXTERNAL AUDIT

- Report on control weaknesses which come to notice

1.3 EVALUATION OF FRAUD CONTROL POLICY

In order to monitor the effectiveness of the Government's Fraud Control Policy and to identify any need for improvement, the policy shall be subject to on-going review, with the initial review to be conducted within two years of the policy's implementation.

This review should not attempt to measure the incidence of fraud itself or the change thereof. Particularly, as an increase in fraud may not necessarily mean an inadequate policy but could rather reflect the success of the employee awareness program resulting in an increase in the incidence of reporting.

The review should be conducted across Government as a whole and the findings reported to the Finance Sub-committee. The review could be undertaken by any number of existing groups/mechanisms including the Internal Audit Bureau, Consultants, or such other group established for that purpose.

The review should consider the following key aspects of the Fraud Control Policy.

- **Employee Awareness** - the degree of employee awareness of Government fraud control policy. A survey of employees would provide the necessary data on this matter including:
 - knowledge of the code of conduct issued as an employment instruction under the Public Sector Employment and Management Act;
 - assessment of the agency's ethical culture;
 - knowledge of the existence of their agency's fraud control plan; and
 - knowledge of the mechanisms available to report suspected cases of fraud.
- **Reporting and Investigation** - the documentation of and adequacy of the procedures in place for reporting and investigation of suspected cases of fraud.
- **Fraud Control Plans** - the existence of and adequacy of the fraud control plans established within agencies including evaluation of the risk assessment methodology in operation in each agency.
- **Evaluation and Review** - the adequacy of an agency's policy/strategy for review of the fraud control plan.

2.1 FRAUD CONTROL PLAN

Each agency is required to have its own Fraud Control Plan to facilitate management of fraud control within the agency.

The Fraud Control Plan is the means by which Government fraud control policy is implemented by agencies. It draws together all the prevention, detection and reporting measures adopted by the agency into one consolidated document.

The Fraud Control Plan is to be endorsed by the responsible Minister.

Regular internal reviews of an agency's Fraud Control Plan are essential to ensure the continued relevance, thoroughness and cohesiveness of the fraud countermeasures in operation. Accordingly, agencies should review their Fraud Control Plan at intervals not exceeding two years.

What Should be in a Fraud Control Plan

A fraud control plan should address at least the following:

- an overview statement of the agency's attitude to fraud including the definition of fraud;
- the agency's responsibilities in relation to fraud and its relationships with other agencies;
- responsibilities within the agency for the coordination, monitoring, review and promotion of the overall Fraud Control Plan, and for each of its elements;
- procedures for the preparation and maintenance of the agency's risk assessment and action plan (refer section 2.2);
- the agency's fraud awareness, education and training programs (refer section 2.3);
- procedures for reporting fraud (refer section 2.4);
- procedures for fraud investigation (refer section 2.5);
- procedures to review and update the fraud control plan at intervals not exceeding 2 years.

- **Awareness Raising #1**
Directed at senior management and outlining the nature and extent of potential fraud, its potential impact on the organisation and the recognition and monitoring of fraud indicators.
- **Awareness Raising #2**
A general program directed at large groups of employees which is designed to 'sensitise' them to the existence of fraud, how to recognise it and what steps to take should they encounter it.
- **Developing Fraud Control Plans**
Directed at middle managers, focussing on development, implementation and monitoring of a fraud control plan:
 - risk assessment and action plan ;
 - reporting procedures;
 - developing skills to conduct initial 'in-house' investigations;
 - administrative /disciplinary procedures; and
 - costs/benefits of prosecution.
- **Investigation**
A specialised course aimed at identified individuals within agencies in order to equip those individuals with the skills necessary to conduct initial fraud investigations prior to referral to the NT Police.

2.4 FRAUD REPORTING

A well structured reporting process is one of a number of key elements to a successful fraud strategy. The detail of the reporting process may differ from agency to agency, but should contain at least the following:

Internal Reporting

- Each agency should have a well defined reporting and decision making process with a clear chain of command for receiving reports of suspected fraud and for decisions on subsequent action.
- Agency staff should have a clear understanding of the reporting requirements and their responsibilities within the process.
- The reporting mechanism should ensure that all cases of suspected fraud are brought to the attention of the appropriate authority and properly documented.

- that where the initial investigation confirms fraudulent activity the agency take action in accordance with the requirements of legislation, such as the Financial Administration and Audit Act and the Public Sector Employment and Management Act including, if appropriate, notification to the Police.

ORGANISATION

1. Organisation Structure

- (a) Departments
- (b) Statutory Corporations
- (c) Other (please specify)

2. What is the size of your organisation in terms of number of employees?

- (a) 50 and under
- (b) 51 - 100
- (c) 101 - 200
- (d) 201 - 500
- (e) 501 and over

3. What is the size of your organisation in terms of budget? (Please consider the current financial year)

- (a) Under 5
- (b) 5 - 10
- (c) 11 - 20
- (d) 21 - 30
- (e) 31 - 100
- (f) 101 and over

PUBLIC ACCOUNTS COMMITTEE

INTERNAL AUDIT SURVEY

To be completed by Northern Territory Government Agencies

ORGANISATION

1. Organisation Structure

- (a) Department
- (b) Statutory Corporation
- (c) Other (please specify)

2. What is the size of your organisation in terms of number of employees?
 (Please tick one)

- (a) 50 and under
- (b) 51 - 100
- (c) 101 - 200
- (d) 201 - 500
- (e) 500 and over

3. What is the size of your organisation in terms of budget allocation for the current financial year? (Please tick one)

\$A millions

- (a) Under 5
- (b) 6 - 10
- (c) 11 - 20
- (d) 21 - 50
- (e) 51 - 100
- (f) 101 and over

7. An internal audit function should report to: (Please tick one)

- (a) The Chief Executive Officer
- (b) An audit committee
- (c) Board of Directors
- (d) Functional head
- (e) Other (please specify)

8. Do you envisage any changes in the role of internal audit in the next 3 - 5 years? If so, please indicate any of the following roles which may be given greater/lesser emphasis. (Please tick box in appropriate column)

	More Emphasis	Less Emphasis	No Change
(a) Independent appraisal of the internal control system	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Proper safeguarding of assets and preventing and detecting error and fraud	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Independent review of the efficient operation of the organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Independent evaluation of the effectiveness of management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Internal consultant to management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Provision of specialised audit services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) Examination of financial statements (irrespective of whether audit opinion is provided by internal or external audit)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(h) Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

ACTIVITIES

12. Which aspects of your organisation's activities are reviewed by the Internal Audit Bureau or a consultant? (Please tick one or more)

	LAB	Consultant
(a) the reliability and integrity of financial and other operating information and systems	<input type="checkbox"/>	<input type="checkbox"/>
(b) management information systems	<input type="checkbox"/>	<input type="checkbox"/>
(c) compliance with policies, procedures laws and regulations	<input type="checkbox"/>	<input type="checkbox"/>
(d) economy and efficiency of resource usage	<input type="checkbox"/>	<input type="checkbox"/>
(e) achievements and targeted outcomes/outputs	<input type="checkbox"/>	<input type="checkbox"/>
(f) control of fraud	<input type="checkbox"/>	<input type="checkbox"/>
(g) consultancy	<input type="checkbox"/>	<input type="checkbox"/>
(h) special investigations?	<input type="checkbox"/>	<input type="checkbox"/>
(i) Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>

13. How many audits were conducted by either the Internal Audit Bureau or a consultant in

	IAB	Consultant
1993/94	<input type="checkbox"/>	<input type="checkbox"/>
1992/93	<input type="checkbox"/>	<input type="checkbox"/>

Please list:

1993/94

1992/93

LEGISLATION

18. Does any legislation administered by your organisation refer to any of the following functions: (Please tick one or more) (Do not include *Financial Administration and Audit Act*)

Accounting

Auditing

Financial Reporting

Give details: _____

ANNUAL REPORT

19. What function of audit is published in the annual report? (Please tick one or more)

(a) Internal audit achievements for past year

(b) Future audit programs

(c) External audit recommendations

(d) Management's response to external audit recommendations

(e) Remedial action promised/undertaken in response to external audit recommendations

(f) Program evaluations

(g) Major internal audit recommendations

(h) Management's response in relation to internal audit recommendations

(i) Reasons for not implementing internal audit recommendations

(j) Details of exemption from internal audit

(k) None of the above

(l) Other (please specify)

24. How often does the audit committee meet? (Please tick one)

- (a) Monthly 142
- (b) Quarterly 143
- (c) Half yearly 144
- (d) Annually 145
- (e) On Demand 146
- (f) Other (please specify) 147

25. What is the composition of the audit committee?

- (a) Number of Members 148
- consisting of:
 - Independent/External Members 149
 - Internal Members 150
 - Members with financial background 151

- (b) Chairman
 - Internal Member 152
 - External Member 153

26. Does the Audit Committee report to:

- (a) Board of Management 154
- (b) Statutory Board 155
- (c) Chief Executive Officer 156
- (d) Other (please specify) 157

27. Do you think that internal (and external) auditors have a right to address the Audit Committee?

- Yes 158
- No 159

PUBLIC ACCOUNTS COMMITTEE

INTERNAL AUDIT SURVEY

To be completed by Internal Audit Bureau

ORGANISATION PROFILE

1. No. of staff (establishment)

Audit Managers

Auditors

Administrative Support

2. No. of Vacancies (as at 30 September 1994)

Audit Managers

Auditors

Administrative Support

3. Classification of organisation (by numbers)

	Audit Managers	Auditors	Administrative Support
Male	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Female	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. What are the resources of the Internal Audit Bureau in terms of formally qualified and/or experienced staff?

(a) Post graduate degree/diploma in business/commerce/
accountancy

(b) Post graduate degree/diploma in other field
(please specify)

(c) Bachelor degree in business/commerce/accountancy

(Question continued on Page 2)

8. Based on current staff establishment, identify sources from where staff were recruited.

	Audit Manager	Auditor
(a) Internal promotions	<input type="checkbox"/>	<input type="checkbox"/>
(b) School leavers	<input type="checkbox"/>	<input type="checkbox"/>
(c) Other post-secondary college graduates	<input type="checkbox"/>	<input type="checkbox"/>
(d) University graduates	<input type="checkbox"/>	<input type="checkbox"/>
(e) Public accounting firm staff	<input type="checkbox"/>	<input type="checkbox"/>
(f) Commerce and industry staff	<input type="checkbox"/>	<input type="checkbox"/>
(g) Government agencies	<input type="checkbox"/>	<input type="checkbox"/>
(h) Others (please specify)	<input type="checkbox"/>	<input type="checkbox"/>

9. What is the preferred standard of qualification for internal audit staff?

	Audit Manager	Auditor
(a) Professional accountancy qualifications	<input type="checkbox"/>	<input type="checkbox"/>
(b) Other university degree	<input type="checkbox"/>	<input type="checkbox"/>
(c) Post-secondary college diploma	<input type="checkbox"/>	<input type="checkbox"/>
(d) Matriculation/Year 12	<input type="checkbox"/>	<input type="checkbox"/>
(e) Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>

13. Internal Audit Annual Staffing Costs (Personnel Costs)

	1993/94 Actual	1994/95 Est.	1995/96 Est.
\$	<input type="text"/>	<input type="text"/>	<input type="text"/>
No. of paid staff	<input type="text"/>	<input type="text"/>	<input type="text"/>

PRACTICE

14. Does your organisation have:

(a) Approved Internal Audit Charter Yes No

Stating clearly the:

(b) Objectives of the Bureau Yes No

(c) Responsibilities of the Bureau Yes No

(d) Authority of the Bureau Yes No

15. To whom does the internal audit unit report?

(Provide the levels of reporting responsibilities by way of organisation chart.)

16. How many Agencies does the Bureau service?

(a) Departments

(b) Statutory Corporations

(c) Other (please specify)

17. Does the Internal Audit Bureau prepare:

(a) an audit plan with long-term and short-term goals Yes No

(b) detailed audit programs to address the areas covered by the audit plan? Yes No

(c) time budgets and schedules for the entire year? Yes No

21. Has an external review been undertaken on the Internal Audit Bureau?

Yes No

22. If yes, how often are these reviews taken?

- (a) Annually
- (b) Biannually
- (c) Every three years
- (d) Ad hoc
- (e) Other (please specify)

23. Who conducted the most recent review?

- (a) Internal
- (b) Auditor-General
- (c) Outsourced
- (d) Other (please specify)

24. What recommendations (if any) have emerged from the review(s)?

25. What is/was the response of the Internal Audit Bureau to the recommendations?

31. To what extent does the Internal Audit Bureau follow an "adding value" philosophy? Please provide details of products and services that evidence this:

32. Please provide comments on the adequacy of the *Financial Administration and Audit Act* and Treasurer's Directions in relation to the internal audit function.

OUTSOURCING

33. Has the Internal Audit Bureau outsourced any of its internal audit function/program? Yes No

34. If yes, what was the rationale underlying the decision to outsource the internal audit function/program?

41. Are there termination clauses built into the agreement and, if so, do these include termination fees?

Yes No

42. If yes, do these include termination fees?

Yes No

43. Does the agreement provide right of access to the Auditor-General's Office to examine working files of internal audit?

Yes No

44. What is the basis for determining fees?

(a) Agreed schedule of rates

(b) Hourly rate

(c) Quote per review

(d) Other (please specify)

45. Are the fees subject to reasonableness and competitiveness checks on a regular basis?

Yes No

46. If yes, what benchmarks are applied?

47. Are there any confidentiality and security provisions incorporated within the contract?

Yes No

48. How many equivalent full time positions were removed due to the outsourcing of the internal audit function?

MEMBERS

Mr Rick Setter, MLA
(Chairman)

Mr John Bailey, MLA

Mrs Loraine Braham, MLA

Mr Brian Ede, MLA

Mr Phil Mitchell, MLA

Legislative Assembly of the Northern Territory

PUBLIC ACCOUNTS COMMITTEE

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8.1.5. Legislation	26
8.1.6. Annual Report	26
8.1.7. Audit Committee	27
8.1.8. Further Comments on the Aspects of Internal Audit	31
8.2. Internal Audit Bureau and Other Bodies	32
8.2.1. Organisation Profile	32
8.2.2. Practice	36
8.2.3. Outsourcing	41

APPENDICES

Appendix 1	List of Agencies Surveyed
Appendix 2	Presentation by Mr Des Pearson, Auditor-General, Western Australia
Appendix 3	Treasurer's Directions, Part 3, Section 2
Appendix 4	Fraud Control Policy
Appendix 5	Survey Form Forwarded to Government Agencies
Appendix 6	Survey Form Forwarded to Internal Audit Bureau, Territory Insurance Office and Northern Territory University

NORTHERN TERRITORY PUBLIC ACCOUNTS COMMITTEE

STATUS OF THE COMMITTEE

The Northern Territory Public Accounts Committee was established by temporary Standing Order 21A of the Legislative Assembly on 16 August 1986.

The Committee's status was altered, by way of a motion of the Chief Minister on 23 August 1988, from a Sessional Committee on a trial basis to a Standing Committee of the Parliament.

As a Committee of the Legislative Assembly, its authority is derived from the *Northern Territory (Self Government) Act* (of the Commonwealth) and the *Legislative Assembly (Powers and Privileges) Act* (of the Northern Territory).

The committee is comprised of five (5) members, presently three (3) Government and two (2) Opposition members.

DUTIES OF THE COMMITTEE

The duties of the Committee under Standing Orders 21A are:

- (a) to examine the accounts of the receipts and expenditure of the Northern Territory and each statement and report transmitted to the Legislative Assembly by the Auditor-General, pursuant to the *Financial Management Act*;
- (b) to report to the Legislative Assembly with such comments as it thinks fit, any item or matters in or arising in connection with the receipt or disbursement of the moneys to which they relate, to which the Committee is of the opinion that the attention of Parliament should be drawn;
- (c) to report to the Legislative Assembly any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them or in the method of receipt, control, issue or payment of public moneys;
- (d) to inquire into and report to the Legislative Assembly on any question in connection with the public accounts of the Territory -
 - (i) which is referred to it by a resolution of the Assembly; or
 - (ii) which is referred to it by the Administrator or a Minister; and
- (e) to examine the reports of the Auditor-General laid before the Legislative Assembly with the accounts of a Public Authority of the Northern Territory (including any documents annexed or appended to those reports).

CHAIRMAN'S FOREWORD

In undertaking this project, the Committee was mindful of a number of objectives. Firstly, the need to ascertain whether internal audit procedures were in place in public sector jurisdictions in the Northern Territory and report back to the national body of the Public Accounts Committees. Secondly, the Committee wanted to achieve optimum benefit from conducting such a review and ensure that the major auditing bodies in the public sector would derive some benefit from the study. Thirdly, the Committee took the opportunity to sponsor a professional development seminar to the employees of the Northern Territory Public Sector - not only to obtain an understanding of the role of internal audit and Public Accounts Committee, but also to obtain a better understanding of the shift in the internal audit function within the Internal Audit Bureau.

Whilst not a major issue to the results of the survey, readers should note that this survey was conducted during the currency of the *Financial Administration and Audit Act* and its associated Regulations and Directions. This legislation was replaced by the *Financial Management Act* on the 1 April 1995.

The Committee would like to acknowledge those that participated in the inquiry: to the Office of the Commissioner for Public Employment, Department of Chief Minister and Office of the Auditor-General for their support and constructive criticism in developing the survey form and all Agencies that responded to the survey. Our thanks also goes to the Public Sector Accounting Group for hosting the seminar and to the speakers and the participants who attended the seminar.

Finally, appreciation is extended to the Committee secretariat for compiling the report: Jenny Mollah for driving the project, Judy Herring for processing and compiling the statistics and providing administrative support and Kathleen Sadler for preparing the graphics.

- Chief Executive Officers should ensure internal audit is deployed in a timely fashion - information technology auditors should do their work when information systems are being planned and developed, not when they have failed.

2. CONDUCT OF INQUIRY

2.1. Briefings

The Chairman and Secretary had informal discussions with officers of the Northern Territory Public Service. These were:

Mr Elliott Isaacson
Auditor-General
Office of the Auditor-General

Mr David Hawkes
Commissioner for Public Employment
Office of the Commissioner for Public Employment

Mr Barrie Hamilton
Director, Internal Audit Bureau
Department of Chief Minister

The Public Accounts Committee received an *in camera* briefing from the Secretary, Department of Chief Minister, Mr Peter Conran, and the Director of Internal Audit Bureau, Mr Barrie Hamilton.

2.2. Survey of Agencies

The Committee surveyed thirty six government agencies with a 94% response. (Refer Appendix 1 for List of Agencies surveyed.) A separate survey was forwarded to the Internal Audit Bureau, Department of Chief Minister. This Bureau provides an audit service to the majority of the Northern Territory Government Agencies. The Territory Insurance Office and Northern Territory University were also surveyed. These bodies outsource and employ their own internal audit function respectively.

Results of this survey are reported in Section 8 of this report.

2.3. Seminar

On 21 September 1995, the Northern Territory Public Sector Accounting Group, on behalf of the Public Accounts Committee presented a seminar on Strategic and Management Review. Speakers at this seminar were:

Opening Address: Mr Rick Setter
Chairman, Public Accounts Committee

3.1.2. Chief Executive Officers must establish or contract in effectively resourced Internal Audit.

The provisions of the *Financial Administration and Audit Act* were adequate in requiring Chief Executive Officers to establish an internal audit function.

Section 27(1) provided for the establishment of an internal audit function.

27(1) *When so instructed by the Treasurer each accountable officer-*

(a) shall examine the nature and extent of the internal audit organisation, if any, for his department; and

(b) shall upon the completion of that examination make and furnish to the Treasurer a report setting out the action that is, in his opinion, necessary to be taken to ensure that an adequate internal audit organisation is established and maintained for his department to assist him in the performance or discharge of the functions and duties conferred or imposed upon him by or under this Ordinance.

3.1.3. Chief Executive Officers must have Internal Audit report directly to them, not to a Deputy.

The *Financial Administration and Audit Act* was adequate to ensure direct reporting to the Chief Executive Officer.

The Act required the officer in charge of the internal audit function to report to the accountable officer.

27 (3) *The officer in charge of the internal audit organisation for a department shall report, at his discretion, to the accountable officer the result of any appraisal, inspection, investigation, examination or review made by that organisation.*

3.1.4. Chief Executive Officers must be involved in planning the Internal Audit program.

Under the *Financial Administration and Audit Act* there appeared to be no legislative requirement for Chief Executive Officers to be involved in planning the internal audit program. However, the provision for internal audit to report directly to Chief Executive Officers provided the basis for an agreed method of operation which allowed for annual audit program approval by the Chief Executive Officers. This method of operation still extends to any program amendments or additions which must have Chief Executive Officer approval.

This policy has operated since the inception of the Internal Audit Bureau and is seen as essential to maintaining the control and integrity of the audit program.

3.2. Comments to the Survey

Comments, where applicable, have been provided in the relevant areas of section 8 of this report. Other general comments are provided in this section.

At the same time as disseminating survey forms, Chief Executive Officers of Agencies surveyed were advised of the concern expressed by the Australian Council of Public Accounts Committees in that Chief Executive Officers had not placed adequate emphasis on internal audit within their organisation. Although copies of the resolution were forwarded to each agency, the returns indicated that only 50% of the Chief Executive Officers had signed off on their agency's return, 1% were signed off by the Deputy Secretaries, 48% were signed off by employees of the agency and 1% were not even signed at all.

The Committee identified a number of issues which are of some concern. Some of these issues have been discussed with the Director of the Internal Audit Bureau.

- the apparent confusion between the concept of an internal audit and external audits conducted by the Auditor-General.
- the lack of understanding in the concept of an audit committee.
- Three Agencies were confused about their legal status as defined in the *Financial Administration and Audit Act* and redefined their Agency.
- One agency was requested to forward a legible copy of the survey, the first copy was unreadable.
- Another Agency claimed that too many audits had been conducted by consultants in 1993/94 to detail. The Agency claimed audits were "sensitive", but offered to make the audit files available to the Committee. However, it was noted that the Internal Audit Bureau had conducted only ten audits over a two year period in 1992/93 and 1993/94, and even this was too many to detail.

Overall agencies were satisfied with the quality and professionalism of the Internal Audit Bureau coverage. There was only one negative comment against the performance of the Bureau directed to the inadequate resources and staffing problems of the Bureau. The Internal Audit Bureau have acknowledged that it has experienced difficulties of recruiting internal audit staff, particularly at the management level. This has now been addressed by involving the private sector in delivering the internal audit programs to client agencies.

In discussions with the Internal Audit Bureau, it would appear that the implementation of an internal audit program is entirely at the discretion of the Agency. This can be arranged with either the Internal Audit Bureau or a private sector accounting firm. The Committee noted that two agencies surveyed, Trade Development Zone Authority and Aboriginal Areas Protection Authority (formerly Aboriginal Sacred Sites Authority) did not have an internal audit service at the time of the survey. These agencies were

4. INTERNAL AUDIT

4.1. Definition

The Institute of Internal Auditors, in its standards for the professional practice of internal auditing defines internal audit as:

an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation. The objective of internal audit is to assist members of the organisation in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.

Internal audit was traditionally seen as a means by which management could monitor the effectiveness of its internal controls and keep informed of the reliability and appropriateness of the systems and procedures employed within the organisation.

The internal audit function has moved from compliance checking to the provision of constructive management advice, and is now taking a broader approach and being used as a management tool to evaluate and improve an Agency's performance. This move will assist Agencies in evaluating their objectives by monitoring the effectiveness of their management practices. Rather than just providing a restricted assurance on accounting and related controls, there is a tendency to promote quality management and cost effectiveness and provide a strategy to manage an ongoing program of evaluation.

4.2. Standards

Internal audit standards have been developed by a number of organisations that are accepted by the audit profession:

- Standards for Professional Practice of Internal Auditing issued by the Institute of Internal Auditors for the guidance of its members and their employers. (All staff of the Internal Audit Bureau are members of the Institute of Internal Auditors.)
- Various statements of auditing practice issued by the Australian Accounting Research Foundation on behalf of the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia. For example:

AUP2 Using the Work of an Internal Auditor

AUP4.1 The Effects of an EDP Environment on the Study and Evaluation of the Accounting system and Related Internal Controls

5.2. Functions of Chief Executive Officers

The Public Sector Employment and Management Act, which came into effect on 1 July 1992, details the broad functions of Chief Executive Officers. These functions are detailed in section 24 of the Act and provide an accountability statement, rather than prescriptive responsibilities:

- (a) to direct the employees employed by or in the Chief Executive Officer's Agency;
- (b) to ensure the attainment by the Agency of any objectives set by the appropriate minister;
- (c) to devise organisational structures and arrangements for the Agency;
- (d) to assign designations to employees in the Agency and to vary such designations in accordance with -
 - (i) award requirements; and
 - (ii) designation systems, standards and procedures determined by the Commissioner or, where no such systems, standards or procedures have been determined, with the approval of the Commissioner, within the limits of the amount that has been allocated or is otherwise available for the remuneration of employees in the Agency;
- (e) to assign duties to be performed by each employee in the Agency;
- (f) to evaluate the performance of employees in the Agency;
- (g) to assist employees in the Agency to undertake relevant training, education and development programs;
- (h) **to devise and implement financial and management plans for his or her Agency and monitor the Agency's financial and administrative performance;**
- (j) to devise and implement programs to ensure that employees have equal opportunities in relation to their employment in accordance with the merit principle;
- (k) to ensure the application in his or her Agency of appropriate health and safety standards and programs; and
- (m) such other functions as are imposed on the Chief Executive Officer by or under this or any other Act.

6. NORTHERN TERRITORY PUBLIC SECTOR

6.1. Internal Audit Bureau

The Internal Audit Bureau, Department of Chief Minister provides an internal audit service to the majority of the Northern Territory Government Departments and Authorities, and reports to each client Chief Executive Officer. Clients normally

- (d) it may require any employee to furnish any information and explanations considered necessary for the proper performance of these duties;
- (e) it shall have the right of access at all times to the books, accounts, vouchers, records, correspondence and other documents of the client organisations;
- (f) it shall remain independent of the operational functions of the client organisations which it is required to appraise;
- (g) it may conduct special investigations into any matters or transactions affecting the interests of the client organisations as requested by the Accountable Officer; and
- (h) it shall provide a basis from which to promote and improve operational efficiency and effectiveness.

6.2. Other Bodies

At the time of conducting the survey, the Northern Territory University staffed their own internal audit section and the Territory Insurance Office outsourced their internal audit function.

7. CHANGES AND FUTURE DIRECTIONS

7.1. Current Legislative Requirements (effective 1 April 1995)

The *Financial Management Act* provides the basis for improved accountability and reporting of all Government activities. A number of major changes were made to the structure of the public account, but the changes relevant to this report, was the inclusion of the Accountable Officer's responsibility to the internal audit function. Section 15 of the *Financial Management Act* states that:

An Accountable Officer shall ensure that the Agency has an adequate internal audit capacity to assist the Accountable Officer in the performance of his or her functions under this Act.

The person in charge of an internal audit of an Agency shall, as soon as practicable after completing the internal audit, report to the Accountable Officer the result of the audit.

The Treasurer's Directions were rewritten and issued at the same time as the *Financial Management Act*. The new Directions (Part 3, Section 2) now include a specific section detailing the responsibilities of an Accountable Officer towards the Internal Audit function. (Refer Appendix 3). This had not previously been written into the former Treasurer's Directions.

A separate *Audit Act* was enacted and became effective at the same time as the *Financial Management Act*. The *Audit Act* refers to the legislative requirements of the Auditor-General and his office.

8. SURVEY RESULTS

8.1. NT Government Agencies

8.1.1. Organisational Profile

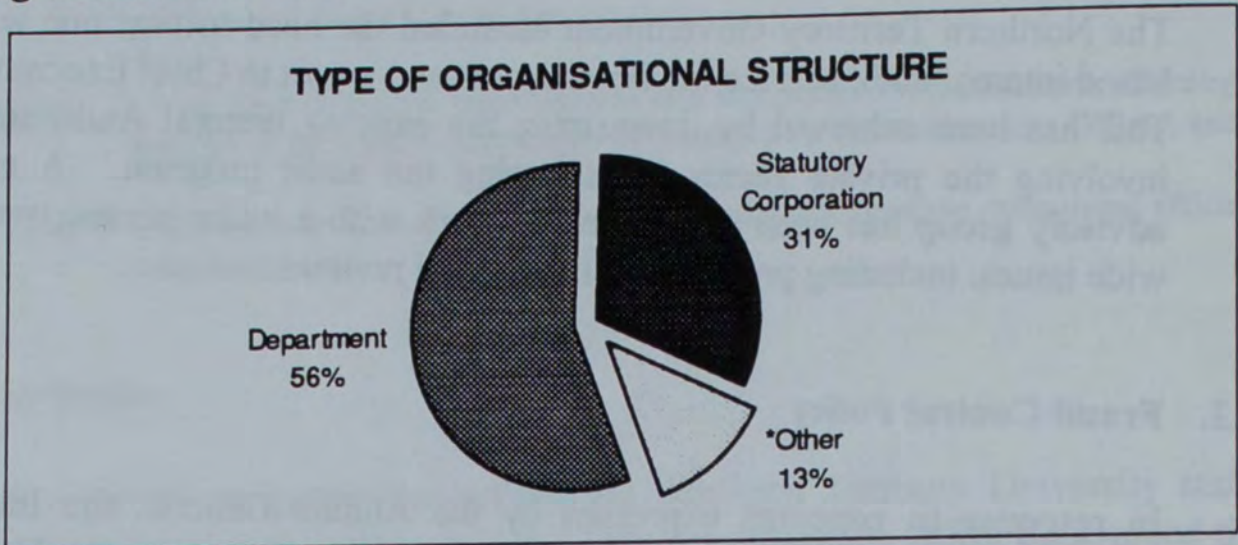


Table 1: Type of organisational structure

When asked to categorise their organisational structure, 56% of the Chief Executive Officers (CEOs) classified themselves as Departments, 31% as Statutory Corporations, and 13% as Other. The category "Other" was specified as Business Agency, Body Corporate, Statutory Appointment and Statutory Agency.

The survey looked at size of organisations in relation to the number of employees and dollars value of the current budget allocation for the organisation.

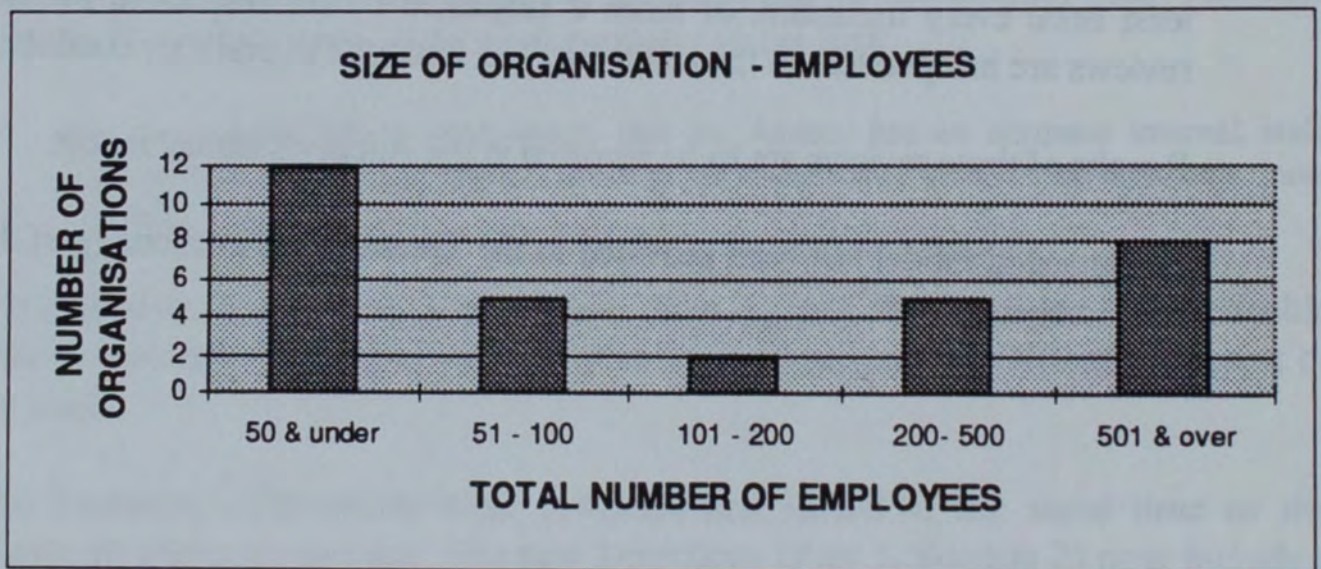


Table 2: Size of organisation in terms of number of employees

Of majority of organisations surveyed, (38%) had less than 50 employees and an annual budget allocation of under five million dollars (31%).

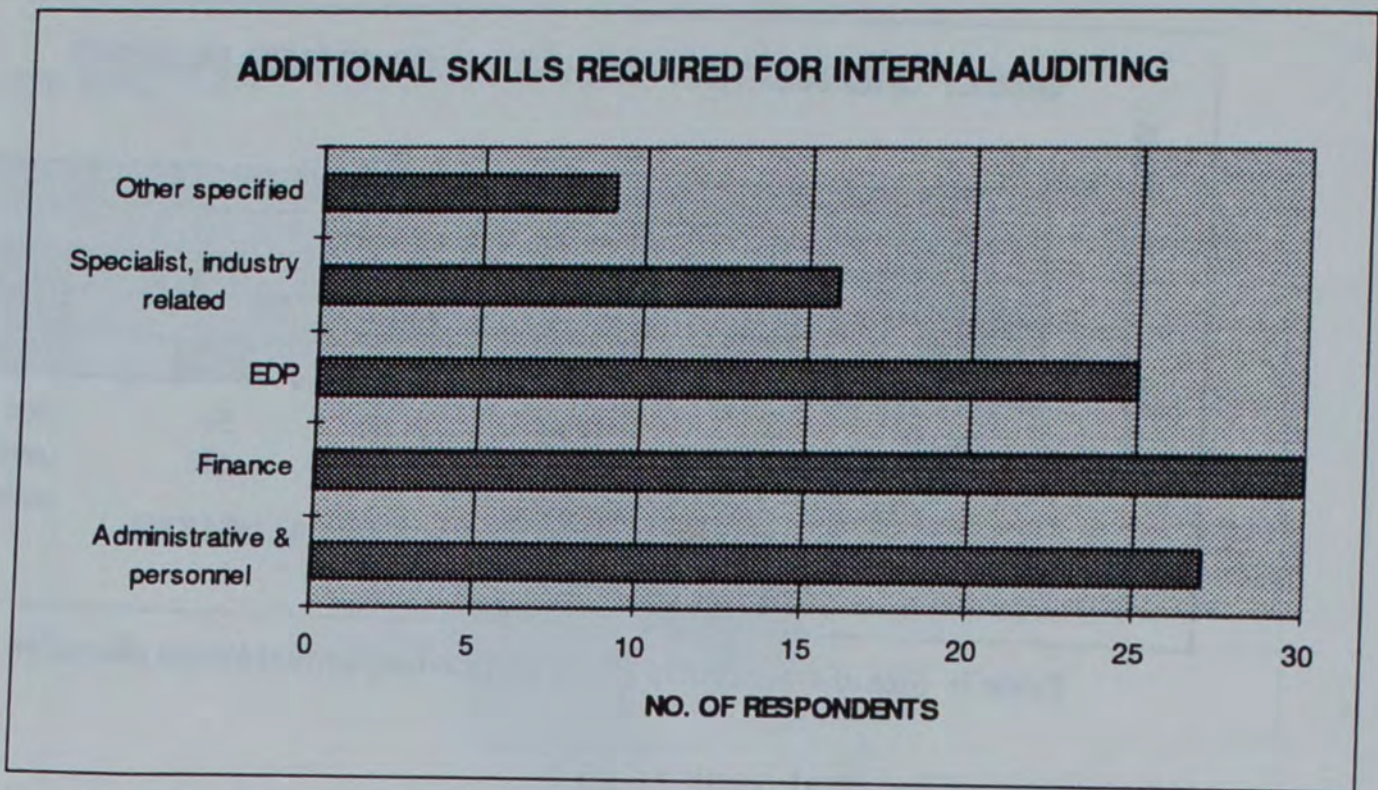


Table 5: Skills in addition to basic auditing skills required to fulfil an effective internal audit function

The CEOs considered, in addition to the basic auditing skills, financial, administrative, personnel and electronic data processing skills were necessary to fulfil an internal audit function. The category “Other skills specified” ranged from analytical investigative skills and strategic planning, to more broad areas of management and understanding of objectives of the organisation audited.

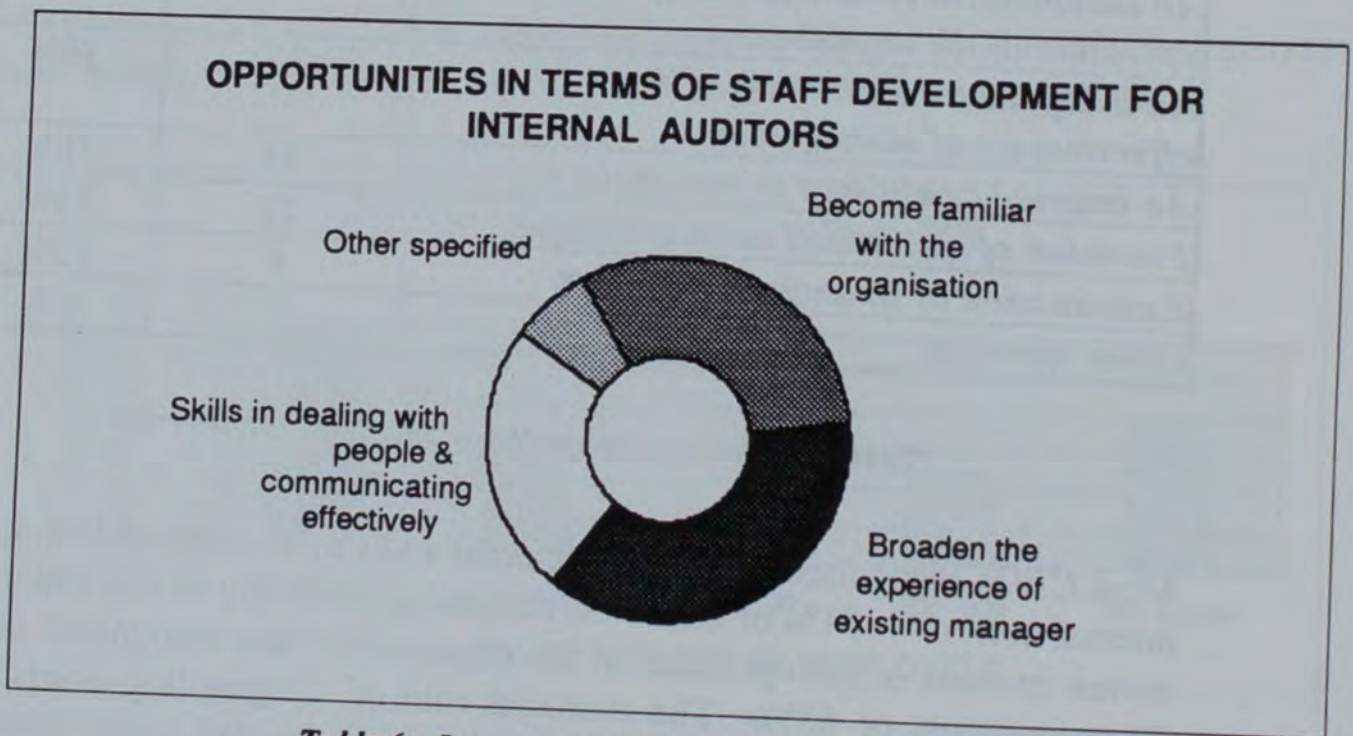


Table 6: Internal Audit opportunities for training

Most CEOs regarded the broadening of the experience of the existing manager as a training opportunity offered by internal audit (26 organisations). Familiarity with organisation (22 organisations) and acquisition of communication skills (17 organisations) also ranked highly. (Table 6). The category “Other training specified” included control environment of government, developing an understanding of internal control procedures and the development of a methodical approach to project work.

the responses were divided between no change in emphasis towards the role being selected by approximately half the respondents, and more emphasis to be given to the role by the other half. There is no clear pattern from the data collected.

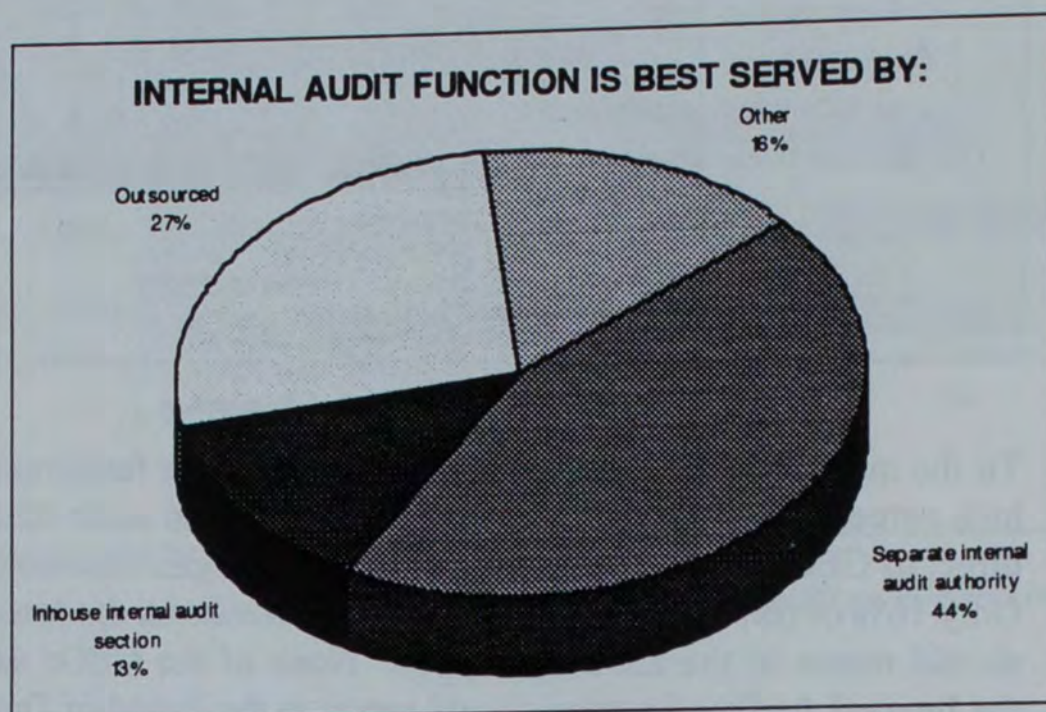


Table 9: The internal audit function is serve best by which group/s

44% of CEOs considered a separate internal audit authority would serve the internal audit function best and 27% preferred the option of outsourcing the tasks. 13 % considered in-house auditors would be best. In the category "Other Comments", four CEOs considered a combination of internal and a separate authority would fulfil the role best, while three CEOs recorded a combination of a separate authority and external auditing would be preferable.

Chief Executive Officer's Internal Audit Responsibilities should be a Prominent Part of their Statement Duties
Comments:
The CEO is responsible for maintaining an adequate and effective level of internal control (which must include a consideration of the extent to which an internal audit activity is to be deployed and if so its role).
The CEO should drive any internal activity and ensure that it is fully effective and contributing to the aims and objectives of the organisation.
Internal audit is an integral part of proper management practices, albeit not specified in a statement of duties.
The CEOs duty statements clearly indicate their responsibilities, particularly relating to accountability. How they go about exercising accountability is really up to them.
Insofar as having Internal Audit programs in place and actively engaging Internal Audit services.
Internal Audit can help the CEO demonstrate their effectiveness and efficiency.

Chief Executive Officer's Internal Audit Responsibilities should be a Prominent Part of their Statement Duties
Comments:
Not in an organisation of this size. In a larger organisation most definitely. Upon cessation of the present CEO, the Board may wish to change this position.
Yes, to ensure that correct procedures are in place and do in fact work. If the internal audit is across all activities they should be offering independent advice to the CEO on ways of improving the methods used by the organisation.
CEOs internal audit responsibilities are deemed sufficiently important that they have been recognised in legislation.

Table 10: Comments: Chief Executive Officer's Internal Audit Responsibilities should be a Prominent Part of their Statement Duties

Aspects of the Internal Audit Service Provided to Organisations
Comments:
The Authority does not have an internal audit service at present.
Internal audit coverage of this Office has two elements to it: <ol style="list-style-type: none"> 1. Coverage of our administrative, financial and personnel transactions performed by our management services agent as part of the Internal Audit Bureau and of that department; and 2. Audit of our annual financial statements and the receipt and expenditure of monies and acquisition and disposal of property by a consultant appointed by the Auditor-General.
Internal audit provides positive information regarding strength of internal controls. It also provides sound advice on how systems/methods may be more efficient and effective.
The service provided by the central Internal Audit Bureau has been of a high standard and of extreme benefit to this Department over past two years.
The service to date is not directly under the control of the CEO. It is negotiated with the Internal Audit Bureau and subject to their constraints - financial and physical.
It has been given very low priority by the Department.
Our internal audit program is considered behind schedule. We think this may be due to limited resources/other priorities.
The internal audit service provided by the Internal Audit Bureau has been of value to the department in the monitoring of its performance particularly in the areas of finance personnel and general office services administration.
Require more specialist training in EDP and management information systems.
There could be more audits carried out.
The internal auditor plays an important role in auditing quasi and separate organisations within the University, eg. drama company, radio station, student union clubs, etc.
The Secrecy provisions of the Ombudsman (N T) Act prohibit external review of actual investigations &, therefore, review internally is of greater significance than in other Agencies.

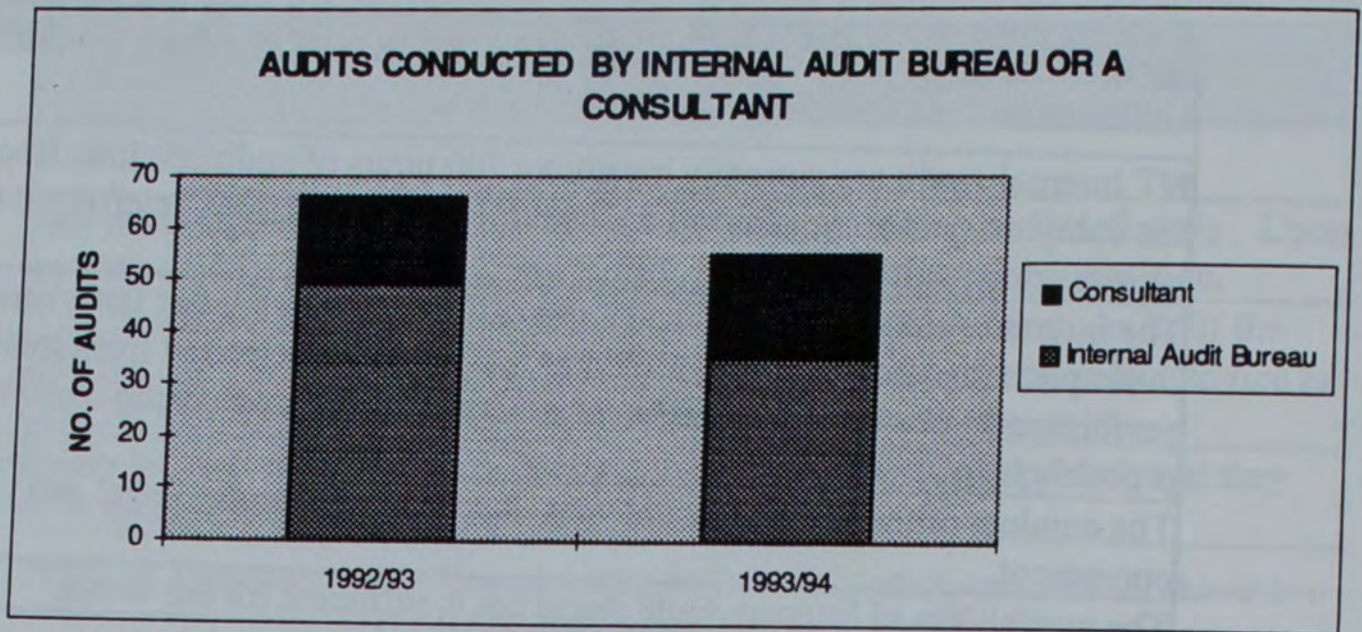


Table 13: Number of audits conducted by either the Internal Audit Bureau or a consultant in 1992/93 and 1993/4

There has been an overall reduction of audits conducted in 1992/93 year compared to 1993/94. Furthermore, there has been a reduction in the use of the Internal Audit Bureau from 74% of all audits conducted for organisations in 1992/93 to 64% of all audits for the 1993/94 year.

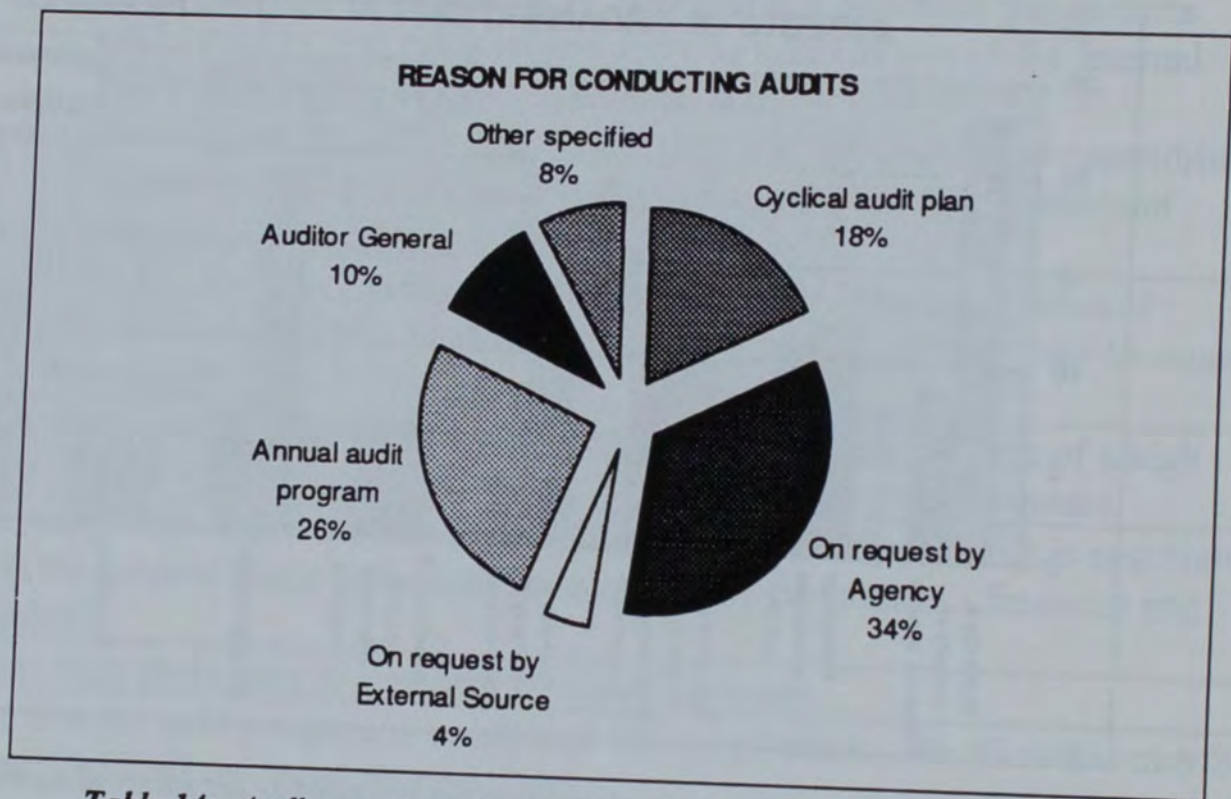


Table 14: Audits conducted as part of a cyclical audit plan or on request

34% of all audits conducted were done on request by the organisation. 26% were part of the annual audit plan. Audits as part of cyclical audit plan and requests from the Auditor-General made up 18% and 10% respectively. The category "Other specified" were Special Audits, and organisational assessments of audit priorities.

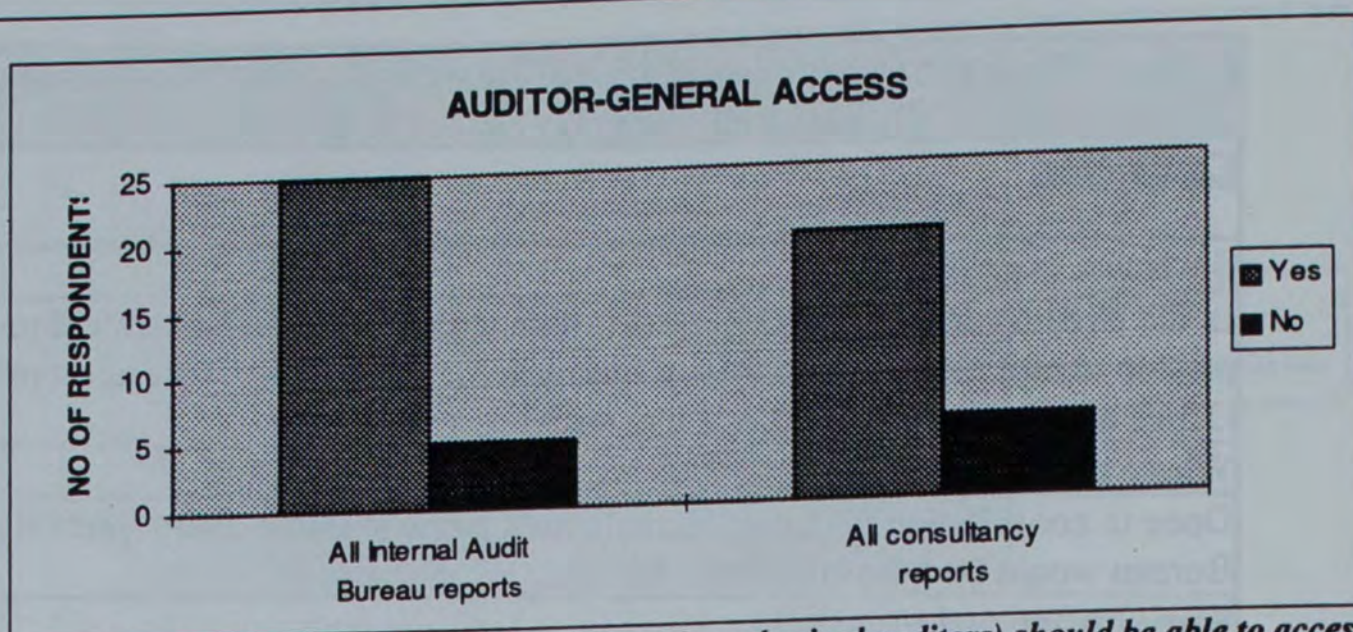


Table 16: Whether the Auditor-General (or his authorised auditors) should be able to access Internal Audit Reports and consultancy reports

The majority of CEOs thought the Auditor-General should have access to both Internal Audit Bureau reports and consultancy reports.

Auditor - General Access
Considering external auditors have access to Board minutes and other confidential information, it is appropriate that they have access to these reports.
Where such reports can contribute to the Auditor-General forming an opinion on the operations of the Department they are relevant, however where such reports are produced as part of a program of continuous improvement they are of little relevance.
Provides Auditor-General with details of internal audit reports and recommendations enabling them to verify whether recommendations have been implemented.
Internal audit reports and the responses to them can affect the scope of external audits. Not all consultants' reports necessarily affect matters that are relevant to the external auditor.
Audit is an aid to management. Its effectiveness is maximised by information sharing.
Internal Audit Recommendations would allow Department to correct inefficiencies before formal reports are actioned. Making these reports available to the Auditor-General should be at the discretion of the CEO.
In line with Departmental accountability all audits should be available.
Should problems be highlighted by internal audit - a test of Auditor-General's thoroughness would be to see if the same conclusions were found.
Some reports could be outside the scope of the Auditor-General's responsibilities.
Part of ensuring management adopts effective strategies.
Program Evaluation by external, independent authority.

8.1.5. Legislation

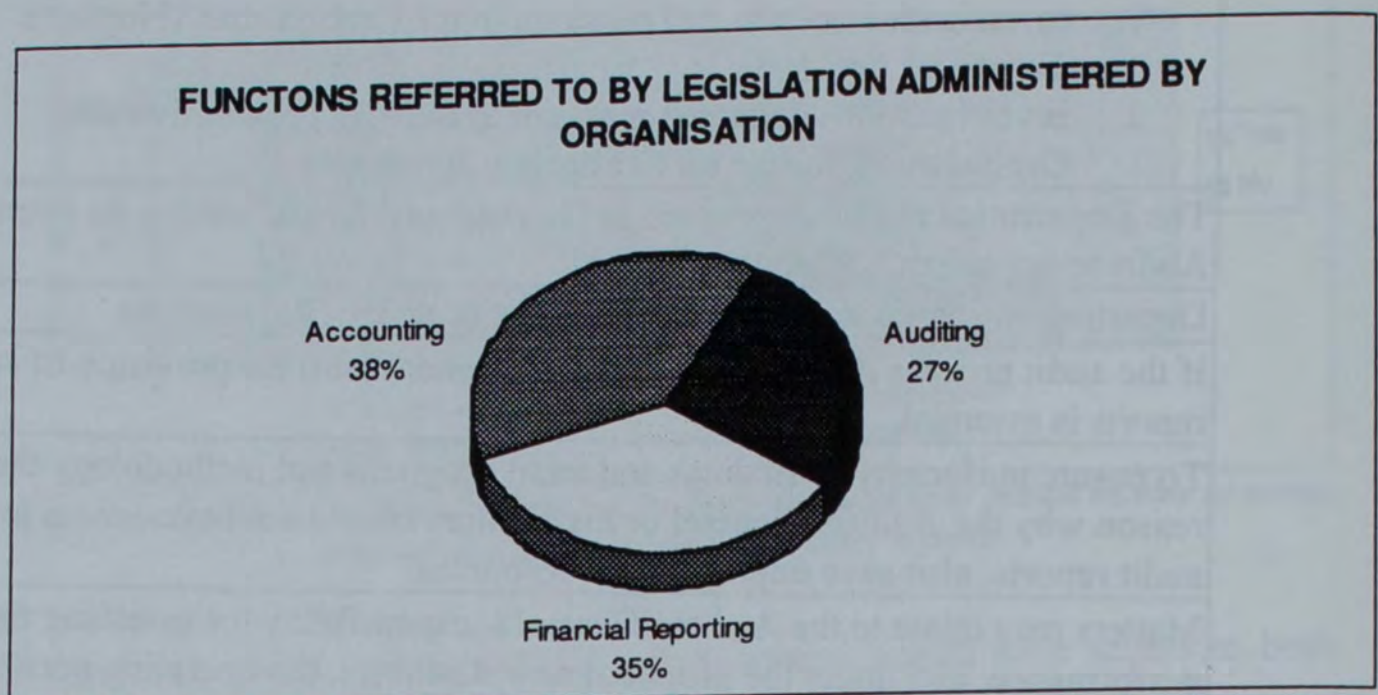


Table 19: Legislation administered by organisation refer to the following functions: (not including the Financial Administration and Audit Act)

Administration of accounting received the most legislative exposure with 10 of the organisations responding positively.

8.1.6. Annual Report

Function of Audit Published in the Annual Report	
Comments:	No. of Respondents
Internal audit achievements for past year	12
Future audit program	4
External audit recommendations	5
Management's response to external audit recommendations	7
Remedial action promised/undertaken in response to external audit recommendations	3
Program evaluations	7
Major internal audit recommendations	7
Management's response in relation to internal audit recommendations	8
Reasons for not implementing internal audit recommendations	1
Details of exemption from internal audit	0
None of the above	10
Other specified	6

Table 20: Function of the audit published in the annual reports

The category "Other specified" referred to comments relating to the Auditor-General's report of the organisation's financial statements, details of audits to be

The category "Other specified" defined the Executive Group or the Departmental Management Group as having the role of the Audit Committee (3 organisations). Another respondent said a role is to review questions of an ethical nature, and another, to address audit issues raised in the Auditor-General's report.

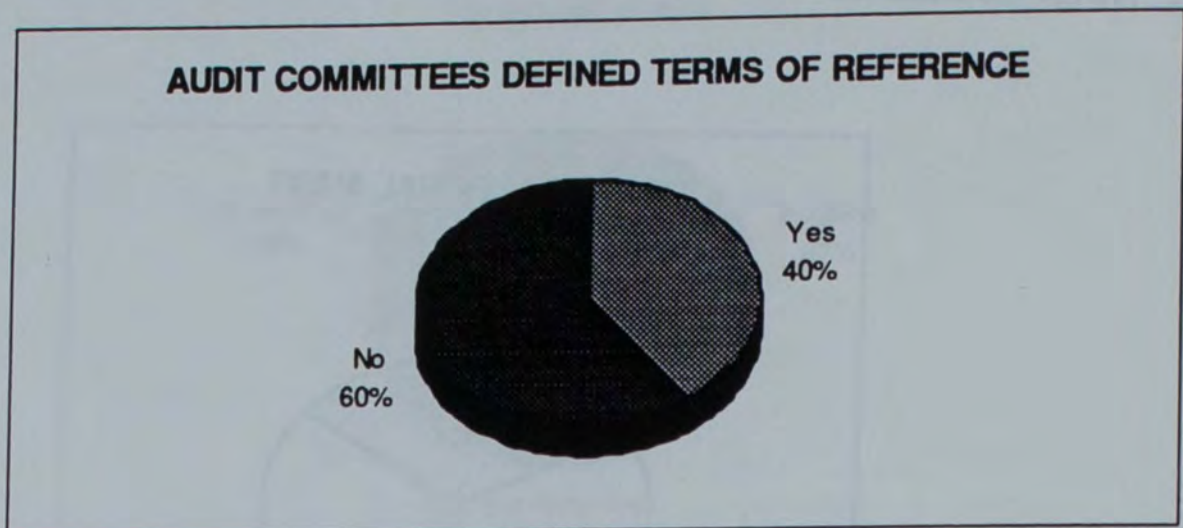


Table 23: Does the Audit Committee have defined terms of reference?

Of the positive respondents (40%), half had detailed terms of reference, the other half had more general directives. Another comment was although no formal terms of reference the committee's activities were governed by a formal agenda.

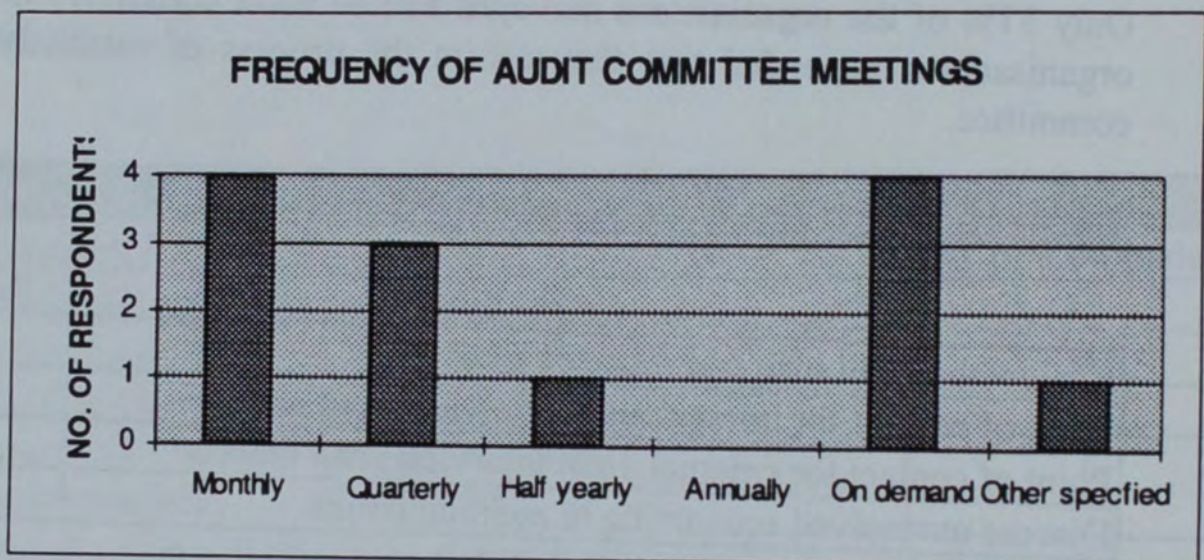


Table 24: Frequency of the audit committee meetings.

The most prevalent frequency was either a regular monthly meeting or the scheduling of a meeting on demand. The category "Other specified" reported frequency of six weeks prior to Board meeting and the expectations that once established, audit committees would be expected to meet weekly or fortnightly.

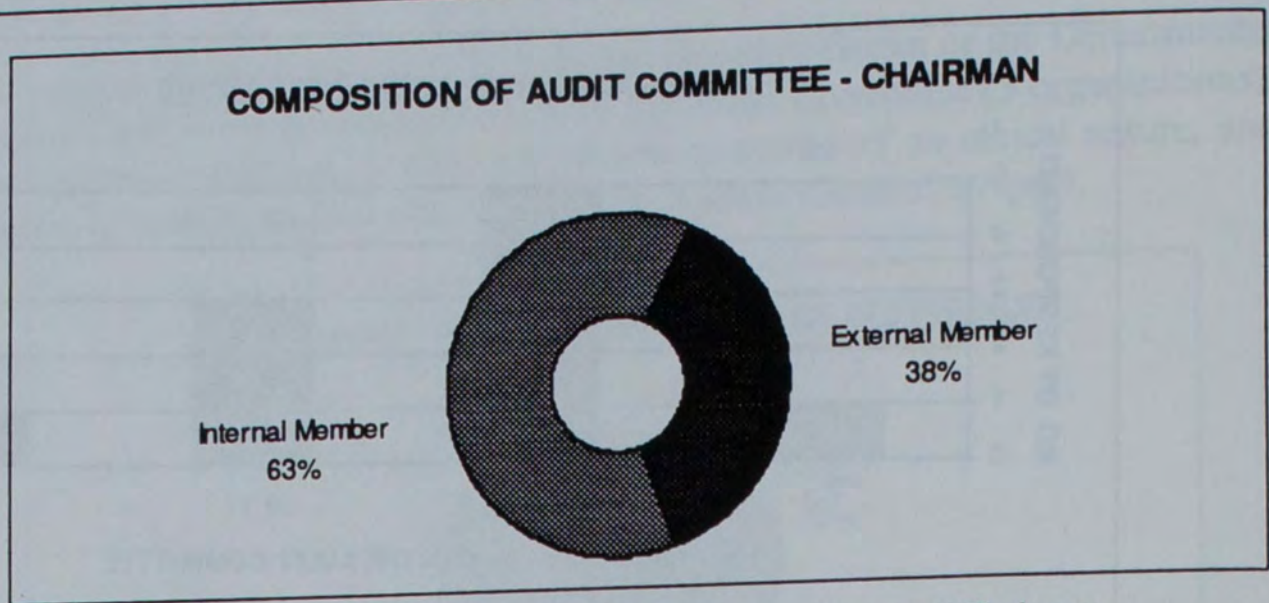


Table 27: Composition of Audit Committee - Survey of Chairman

The Chairman of the Audit Committee was an internal member of the organisation in the majority of cases (63%).

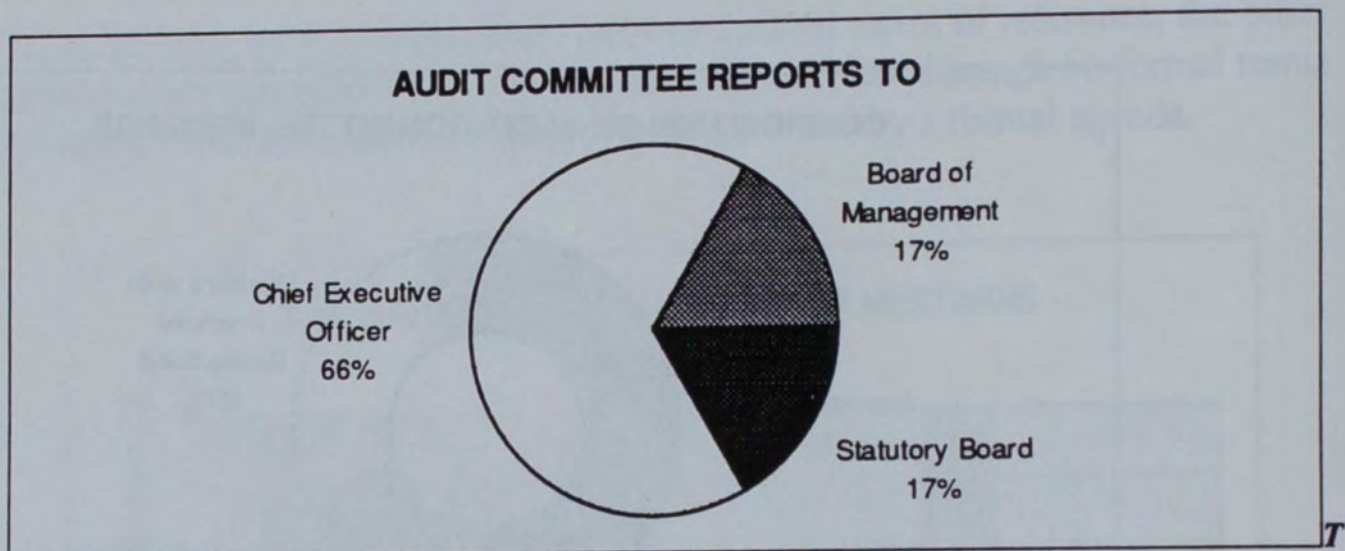


Table 28: To Whom the Audit Committee reports to.

The majority of organisations (66%) had the audit committee reporting to the CEO. An equal distribution of the remaining organisations had the committees reporting to the Statutory Board or the Board of Management.

Question 27. There was a 100% positive response to the question of the right of the Internal Auditor to address the Audit Committee.

8.2. Internal Audit Bureau and Other Bodies

A separate survey was conducted with the Internal Audit Bureau, Department of Chief Minister, Territory Insurance Office and Northern Territory University. Menzies School of Health did not respond to the Survey.

The Territory Insurance Office did not respond to Questions 1-13 as the internal audit function is outsourced to a private accounting firm.

8.2.1. Organisation Profile

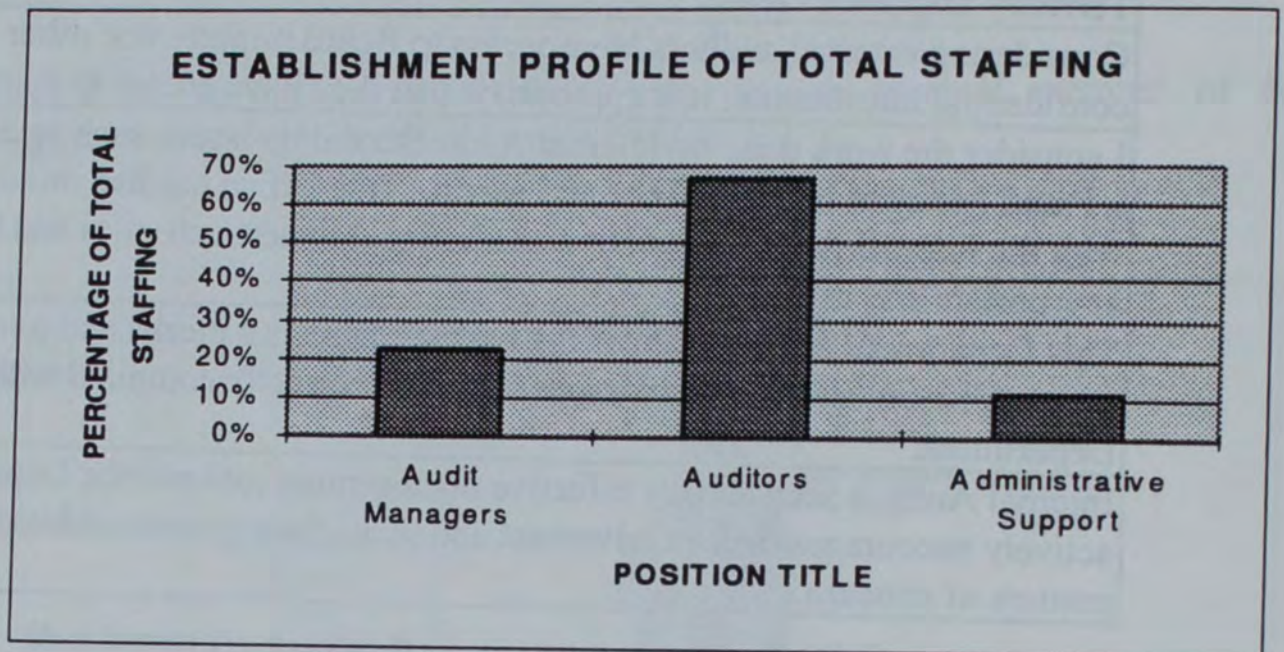


Figure 1: No. of staff (establishment)

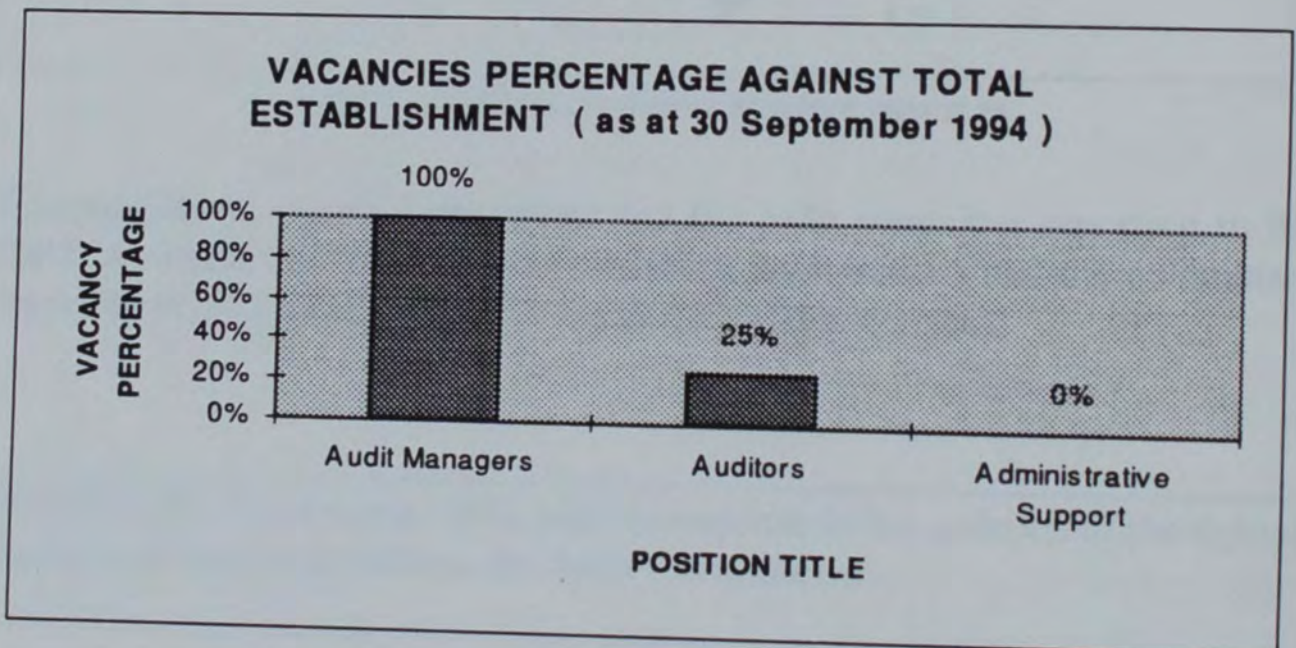


Figure 2: No. of Vacancies (as at 30 September 1994)

All the positions of Audit Manager were vacant at time of survey, and a quarter of the audit establishment number remained vacant. This was the result of downsizing the establishment of the Internal Audit Bureau and involving the private sector in the delivery of internal audit programs.

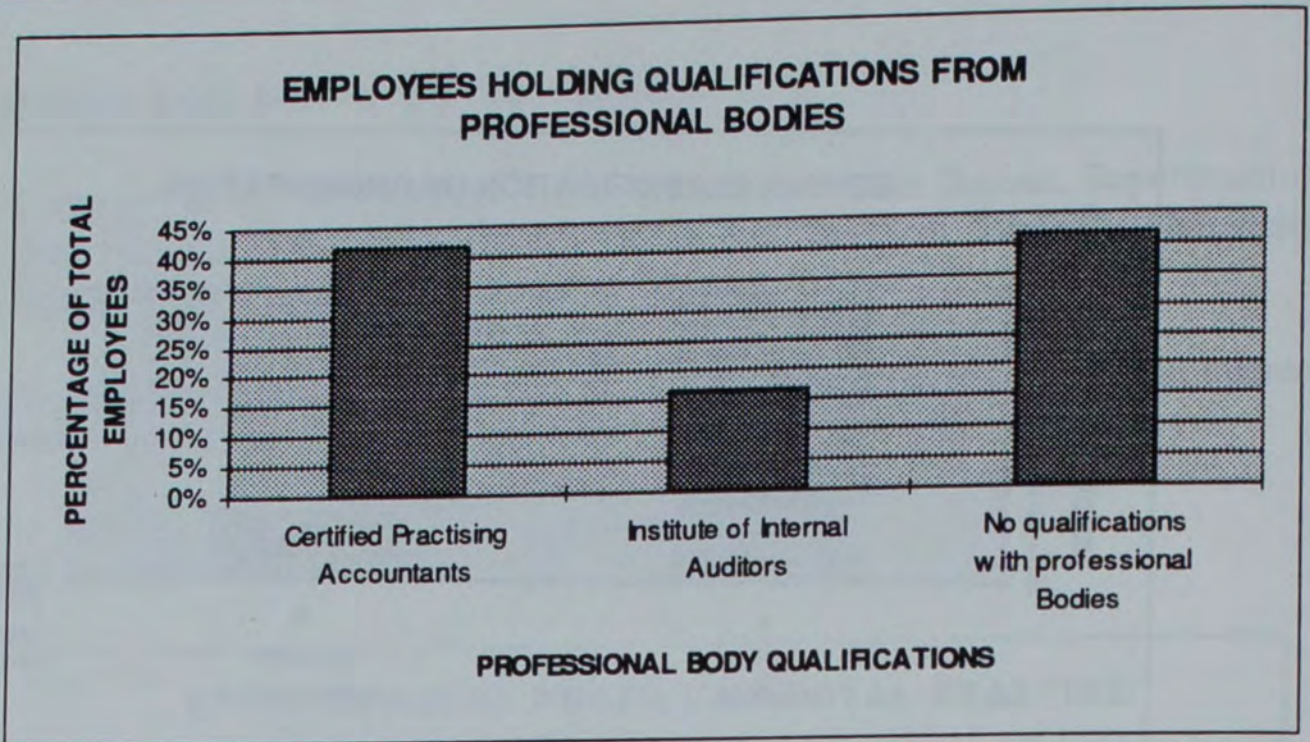


Figure 5: How many employees of your internal audit section hold qualifications with any of the professional bodies?

Just over 40% of internal audit staff held professional body qualifications and the same number do not have any qualifications.

Question 6. Are there EDP audit specialists employed in your internal audit section?

100% of the respondents stated there were no EDP audit specialists employed.

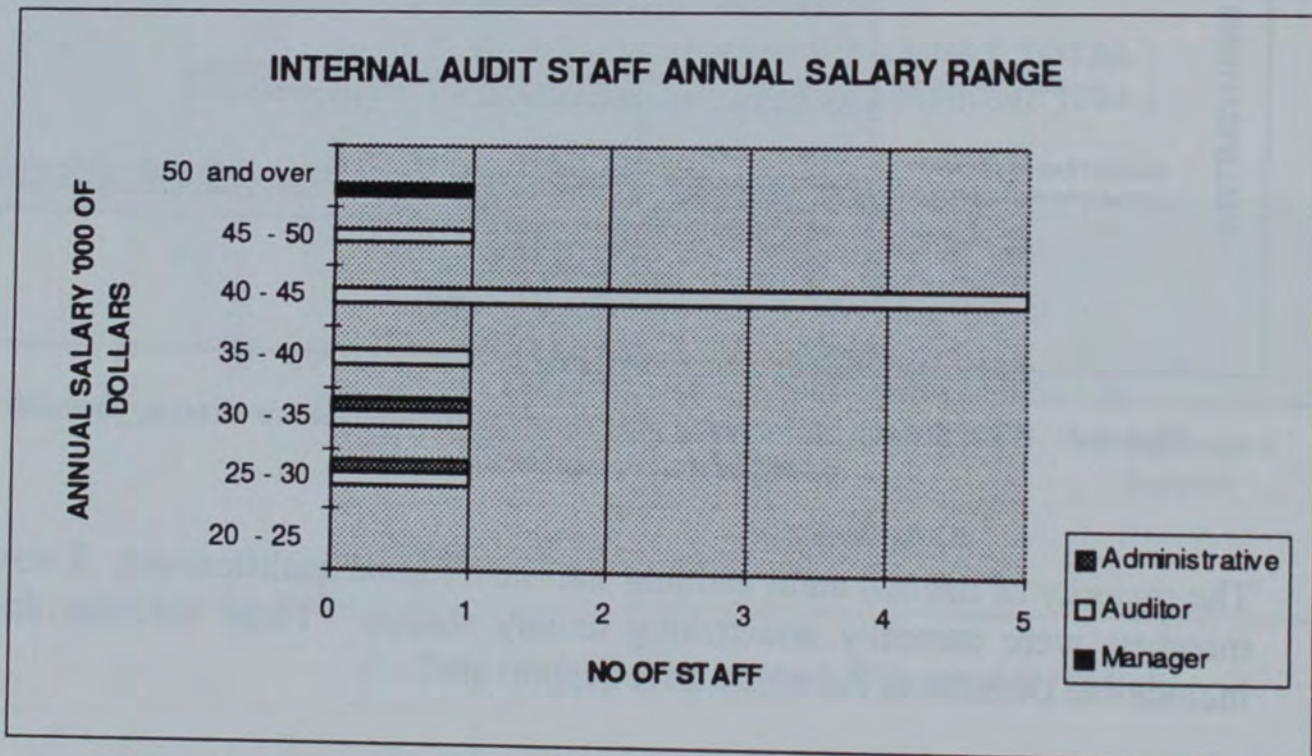


Figure 6: Question 7: What are the number of internal audit staff currently receiving the following annual income?

Question 12. Budget allocation for the financial year - 1994/95

Personnel Costs	895 500
Administrative Costs	88 400
Other	3 000

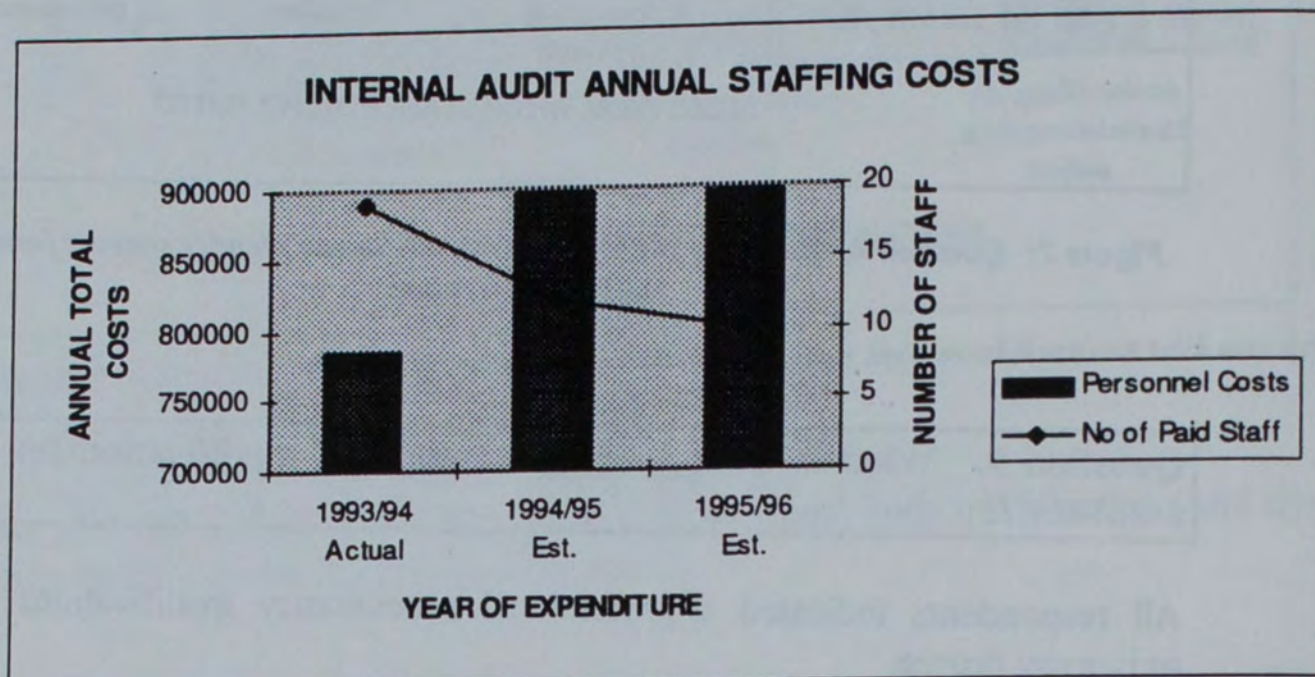


Figure 8: Question 13. Internal Audit Annual Staffing Costs (Personnel Costs)

The reduction in staffing numbers is anticipated to have little effect on the annual staffing costs

8.2.2. Practice

Question 14. Does your organisation have:

(a)	Approved Internal Audit Charter	Yes	100%
-----	---------------------------------	-----	------

Stating clearly the:

(b)	Objectives of the internal audit section	Yes	100%
(c)	Responsibilities of the internal audit section	Yes	100%
(d)	Authority of the internal audit section	Yes	100%

Question 19. What are the major problem areas in the internal audit section?

- The need to keep abreast of the ever changing operational systems.
- Attracting and retaining staff to Darwin
- Inadequate resources

Question 20. How would you classify the staff of the internal audit section access to client's information?

100% of the respondents said they had free access.

Comments to the above:

Specified in Charter "as relevant to activities".

The Internal Audit Section has the highest level of security clearance and therefore has unrestricted access to records and information.

The client CEOs request audits to be undertaken and provide free access to all necessary information.

Question 21. Has an external review been undertaken on the internal audit section?

Yes 65%	No 35%
---------	--------

Question 22. If yes, how often are these reviews taken?

Annually	No
Bi-annually	Yes
Every three years	No
Ad hoc	Yes
Other (please specify)	Yes

N/A - No specific review conducted, reviewed as part of external audit process.

A peer review is undertaken by the Auditor-General's office in accordance with accounting standard AUP2. In addition, a review of the strategic direction of the Internal Audit Bureau was undertaken in November 1993.

Question 28. If yes, give details:

Interdepartmental

Audit Committee Working Party
 Human Resources Management System (HRMS) Project Management Team
 Fraud Control Implementation Working Party
 PIPS User Group
 Audit Committee, Dept of Education (advisory)

External

Australian Universities Internal Audit Network (INTAUDIT via AARNET)
 Institute of Internal Auditors (NT sub Branch)
 NT Young Accountants Group
 Public Sector Accounting Group
 Royal Institute of Public Administration Australia
 Institute of Internal Auditors
 Australian Society of Certified Practising Accountants
 Institute of Professional Secretaries Australia

Question 29. Does the internal audit section have a marketing strategy in respect of its services?

Yes	35%
No	65%

Question 30. If yes, give details:

The Internal Audit Bureau has a marketing strategy which promotes the benefits of internal audit to an organisation and specifically targets areas such as the establishment of Audit Committees and the development of strategic audit plans within organisations. The Bureau has met with success in both areas with a number of agencies establishing or considering the establishment of an audit committee and a number of larger clients undertaking a strategic audit planning exercise.

Question 31. To what extent does the internal audit section follow an "adding value" philosophy? Please provide details of products and services that evidence this:

Internal audit is expected to advise on how processes could be improved. The auditor participates on Quality Improvement teams.

Question 34. If yes, what was the rationale underlying the decision to outsource the internal audit function/program?

Two main reasons exist:

1. Due to the problems associated with obtaining qualified staff in the Darwin market.
2. Due to size of , it would be likely that only one internal auditor could be employed, thus limiting the depth of experience and skills available to the organisation.

The rationale was aimed at enhancing the quality of audit service provided to clients. In addition, given the Internal Audit Bureau's stated objective that value adding to clients' operations is important, outsourcing has and will continue to add greater value. The increased involvement of the private sector will allow for access to a wide range of expertise with significant professional qualifications. The interaction with the private sector will also allow for staff retained within the Internal Audit Bureau to participate with private sector auditors and gain valuable professional development experience.

Question 35. Was a cost benefit analysis undertaken?

Yes	50%
No	50%

Question 36. What was the extent of savings or benefits expected from outsourcing?

Outsourcing did not cost a great deal more than employing our own resources. However, in return we have the reserves of a national firm at our disposal.

Significant benefits are expected to accrue from outsourcing the internal audit function. These would include the ability to source a wide range of highly qualified professional expertise, resulting in an enhancing of the audit product delivered to clients. The exchange of skills to Bureau staff and the positive contribution this will make to audit staff's career development is also seen as significant.

Outsourcing is not expected to result in any additional costs as savings made in personnel and salary costs will be offset against the cost of increased involvement of the private sector.

Question 41. Are there termination clauses built into the agreement and, if so, do these include termination fees?

Yes	65%
No	35%

Question 42. If yes, do these include termination fees?

Yes	50%
No	50%

Question 43. Does the agreement provide right of access to the Auditor-General's Office to examine working files of internal audit?

- The Bureau owns Working Papers, access to Auditor-General is via Bureau.

Question 44. What is the basis for determining fees?

Agreed schedule of rates	
Hourly rate	Yes
Quote per review	Yes
Other (please specify)	Yes

- Agreed annual fee in return for a minimum service level.

Question 45. Are the fees subject to reasonableness and competitiveness checks on a regular basis?

- 65% of the survey responded positively.

Question 51. Are there any further comments on the aspects of internal audit?

There are no internal audit resources within Territory Insurance Office and its entire internal audit function is outsourced to a private accounting firm. Therefore questions 1 to 13 are not applicable to Territory Insurance Office.

The private accounting firm performs an annual risk assessment of auditable visits within Territory Insurance Office and based on that assessment, prioritise 15 units per year. These units are audited in accordance with a timetable agreed with management.

The internal audit profession has undergone significant change in recent years. Management is now looking at the internal audit profession to provide quality advice and assessment on all aspects of an organisation's operations. This contrasts with the norm that prevailed some years ago when internal audit was seen as solely a financial compliance checking function. Additionally, internal audit has on occasion grasped the initiative and become very pro-active in leading and directing improvements in public administration.

The development of a fraud control policy for Government is an example of this pro-active role.

The development and recognition of the internal audit function is also illustrated by the ever increasing requests for audit reviews and management advice. It was against this background that a decision was made to further involve the private sector in delivering a quality internal audit service to Government increasing the base of available expertise and enhancing the audit product provided to our clients.

... of ...

... Office and ...

... Office ...

... change in ...

... operations ...

... is an example of ...

... management ...

... service to Government ...

Office of the Auditor-General

Museums and Art Galleries Board

Office of Public Prosecutions

Work Health Authority

Department of Correctional Services

Department of Sport and Recreation

Department of the Legislative Assembly

Power & Water Authority

Office of Aboriginal Development

Aboriginal Areas Protection Authority

Darwin Port Authority

Trade Development Zone Authority

Northern Territory Legal Aid Commission

Other Bodies

Northern Territory University

Territory Insurance Office

Internal Audit Bureau

No Response

Northern Territory Employment and Training Authority

Menzies School of Health Research

“The challenge in the 90s for public servants is to communicate the ideals of *public* service and the objectives of each program and to provide leadership.

“A commitment to continuous improvement and the focus on efficient, effective *public* service rather than self-service will have to be the hallmarks of the public services of the 90s and beyond if we are to retain public trust.

“The tools are available. The issues are whether public servants have the skill, incentive, and the will to apply them and whether those who hold them to account will allow and encourage them to be applied.

“Let me add that those issues will require constant vigilance by government, Parliament and the community if best results are to be achieved.”

Thus to ensure that a government program or programs have been successful, a results focus is vital.

The essential elements in achieving this are the assignment of clearly defined responsibility and authority to the most appropriate person and their accountability for the final result.

The fundamental role of managers thereby becomes the management of performance.

Performance management links what is being done to what is being achieved. It focuses attention on how effective agency programs are in achieving Government policy objectives and meeting community needs.

Is it important that clear messages are communicated throughout the public sector about what needs to be done, who is responsible for doing it, what results are expected and whether there is continuous monitoring and periodic evaluation of achievements.

Accountability is the most commonly recognised element of this process.

Traditionally the focus of accountability has been on managing resources (inputs) correctly.

However that focus has now extended to what activities have been carried out with what resources (outputs) and whether programs have had the desired effects on the community, the economy or the environment (outcomes).

The introduction of a more rigorous performance management processes for both whole of government and agency-level evaluation has the potential to facilitate a greater results focus in public sector management.

It can lead to greater effectiveness and efficiency in the delivery of services to the community. This however should not be achieved through arbitrary cuts to resources or increased controls on using resources, but by a considered examination of what needs to be done and the most cost-effective way of doing it.

Firstly at a primary or agency level, where it is undertaken by management and internal audit via program evaluation and performance monitoring, to provide assurance to the CEO and Minister and improve program performance. It is in fact a key aspect of the role of all staff and can take many forms.

These range from qualitative observation and discussion to quantitative measurements.

Many WA agencies have now developed a range of relevant and meaningful performance indicators and management information systems to assist in performance monitoring.

While central agencies are responsible for providing support and establishing government-wide conventions, this primary process is the responsibility of individual agencies according to their own circumstances

Secondly, review is conducted at Secondary or Government level in response to the need to be able to evaluate the effectiveness and efficiency of government activities which cut across program, portfolio and agency responsibilities.

Such evaluation provides performance information to assist Government to make decisions concerning:

- ◆ the broad policy framework within which the programs operate;
- ◆ which mix of strategies are the most appropriate and cost-effective to meet specific community needs;
- ◆ what improvements are necessary to programs to improve their effectiveness and efficiency; and
- ◆ the adequacy of resources and their allocation between the various programs.

Evaluation also enables line agencies to assess how their programs contribute to the achievement of the Government's overall policy objectives and relate to other agencies' programs which address the same or similar community needs.

Performance management at the whole of government level is generally initiated at executive government level, for example in WA by the Public Sector Management Cabinet Sub-committee, or can be undertaken by external parties, for example the McCarrey Commission, and public sector committees established for the purpose.

Central agencies also play a role in assisting agencies in the development and implementation of their performance reporting systems, and in facilitating and coordinating a consistent whole-of-government approach to performance reporting.

And thirdly, review is conducted at a Tertiary or Parliamentary level, generally undertaken by external audit or parliamentary committees and reporting on the performance of executive government and agencies.

It is at this third tertiary level that my Office in its defined role undertakes the external audit of the public sector agencies and their programs through performance examinations or reviews.

Performance Indicators 1993-1994. Special Report

This two-part special report looking at the progress made in the development of PIs in WA public sector agencies since 1990/91 and providing practical guidance and agency examples on how to develop relevant and meaningful indicators, has become the Office's "best seller", with unprecedented national and international interest.

The NSW PAERC is currently using the report as a source document in considering the possible legislating for the introduction of PIs into the NSW public sector. The Victorian Government has recently expressed similar interest.

The report has been widely read and commented upon in Britain, Europe, Canada and the Americas.

Most importantly WA public sector agencies have used the report to significantly enhance the development and reporting of Performance Indicators to the point that in respect of the 1995-96 year I plan for the first time, issuing an opinion, and not just an assessment, on all agency PIs.

The outcome of course has been superior quality information on program performance for Parliament, government and agencies and thus enhanced decision-making all round.

Management and Control of Minicomputer-based Systems in WA Government Agencies

has also become an Office best seller, with significant demand for the report from the IT and computer trade across Australia. The report has been described as a "litmus test" for all computer sites across Australia in both the public and private sectors with similar systems, and as "essential reading for Australian company directors who want their organisations to survive to the turn of the century".

More importantly it has flagged serious issues across the WA public sector and agencies have responded en masse to the recommendations made.

Public sector IT management has been clearly enhanced and security of information held by agencies improved.

Similarly the report on the **Administration of Grants to Non Government Agencies** has resulted in improved management practices and better administration of the entire program to the benefit of the NGOs and ultimately the WA taxpayer.

And finally in this category I would mention the 1993 report on **Internal Audit in Selected Government Agencies**. This report beside tightening internal audit practice has encouraged agencies' internal auditors to lift their horizons and extend the scope of their services to encompass aspects of agency performance and the efficiency and effectiveness of programs, rather than just concentrating on their narrow traditional role. Enhanced agency and program management and increased value for money from agency services has been the outcome.

Again I am sure that ultimately the public has been the winner, along with the Police Force, the government and of course the Office. A real win/win to say the least.

The Cash Management and Government Insurance examinations I would describe as "pre-emptive strikes"!

If an interagency action plan for reviewing government insurance can be formulated, depending on the outcome of carefully considered consultations, a full examination may not even be necessary to achieve our goals!

Aspects of the cash management review have also been successfully presented to Treasury and an opportunity realised to better illustrate the inefficiencies and lack of accountability resulting from high use of the hold cheque facility. The outcome should see immediate and ongoing improvements and again may result in a full examination being unnecessary.

In the education sphere the examination of University Consultancies has had considerable impact with local and national universities seeking advice and consultation as a prelude to "getting their act together" in this area of operation to ensure that public resources are not being abused or misused.

In fact the Crean Committee has shown great interest in the report as an element in formulating policy in this area and currently the Office is responding to their enquiries.

Value for Money in TAFE identified that management information systems need improvement to adequately monitor and review performance and recommended that TAFE consider a range of options, including the better use of part-time lecturers, to provide more value for money in the delivery of vocational education and training services.

The report was welcomed by the Minister for Education, the TAFE administration, and just to show what a balanced job we had done, the Union!!

The result should be more focussed, efficient and effective educational services that provide positive outcomes for the TAFE organisation, its students, prospective employers and the taxpaying public.

Conclusion

The general outcomes of this process of performance evaluation and review at a broad level I have already mentioned earlier in my talk and specific outcomes from individual reports have also been broached.

Let me in concluding just reiterate that the wider outcomes sought, and achieved, by my Office, from this program are threefold:

Firstly we look to support Parliament in its role through our financial attest and compliance and performance examination programs facilitating an informed Parliament.

REQUIREMENTS FOR ACCOUNTING AND PROPERTY MANUALS - Refer to Part 3 Section 1

3.2.2 Accountable Officers are responsible for incorporating in their Agency's accounting and property manual, procedures and appropriate controls to ensure that:

- auditors are provided with access to relevant information, employees and records;
- explanations enabling the proper performance of an audit are provided by employees;
- a program of internal audit is developed; and
- results and recommendations of an audit are reported to the Accountable Officer.

CHARTER

3.2.3 An Agency's internal audit function shall operate under a charter that is supported by the Accountable Officer.

3.2.4 An internal audit charter should clearly state the authority, independence, responsibilities and scope of the internal audit function and be consistent with standards of relevant professional bodies.

RESOURCING

3.2.5 Internal audits shall be performed by auditors with adequate skills and competence such that the requirements of relevant professional bodies are satisfied.

ACCESS

3.2.6 Accountable Officers shall ensure that auditors have access to relevant information, employees and records of the Agency at all times, and that employees furnish necessary explanations to enable the proper performance of an audit.

PROGRAMMING

3.2.7 Agencies shall develop an appropriate program of internal audit that enables Accountable Officers to satisfy their responsibilities under the Act.

REPORTING

3.2.8 The results and recommendations of an internal audit shall be reported to the Accountable Officer.

NT PUBLIC SECTOR FRAUD CONTROL POLICY

TABLE OF CONTENTS

PART 1 STRATEGIC PERSPECTIVE

- | | | |
|-----|---|-----|
| 1.1 | Introduction | 2-3 |
| 1.2 | Roles, Responsibilities and Relationships in Fraud Management | 3-6 |
| 1.3 | Evaluation of Fraud Control Policy | 7 |

PART 2 AGENCY RESPONSIBILITIES

- | | | |
|-----|---|-------|
| 2.1 | Fraud Control Plan | 9 |
| 2.2 | Risk Assessment and Action Plan | 10 |
| 2.3 | Fraud Education, Awareness and Training | 10-11 |
| 2.4 | Fraud Reporting | 11-12 |
| 2.5 | Fraud Investigation | 12-13 |

Acknowledgment

The Northern Territory Government acknowledges the assistance provided by the Commonwealth and States in the preparation of this policy, particularly Mr Peter Roberts of the Commonwealth Attorney-General's Department.

1.1 INTRODUCTION

Overview

The Fraud Control Policy is being introduced into the Northern Territory Public Sector to provide guidance on fraud management and to effect a change from the current reactive fraud investigatory process to a proactive fraud management operation emphasising prevention strategies.

The policy demonstrates the public sector's commitment to accountability and details the roles and responsibilities in relation to fraud management.

The key elements of the fraud control policy are:

- that the responsibility for fraud management primarily rests with agencies;
- that the thrust of the policy is directed at fraud prevention, with major emphasis on raising the level of awareness by education and training and the identification of fraud risk areas;
- that the responsibility for initial fraud investigation rests with agencies;
- that each agency will implement the Fraud Control Policy by developing and maintaining a Fraud Control Plan.

The policy is not a detailed procedural document but rather a document which provides a strategic perspective to fraud management in the Northern Territory Public Sector. The policy reflects and complements the requirements of the *Public Sector Employment and Management Regulations* and the *Code of Conduct* and also emulates action taken by the Commonwealth and other State Governments in relation to fraud management.

The policy and particularly the fraud education, awareness and training program will support and encourage a sound ethical culture in the Northern Territory Public Sector.

Definition of Fraud

Fraud is the use of deceit:

- to attain advantage, financial or otherwise;
- to avoid any reasonable obligation; and/or
- to cause loss to any agency, person or organisation.

Service Wide Co-ordination

Whilst agencies have the responsibility for fraud management, there are aspects of the fraud control policy which would benefit by having centralised development to minimise resource requirements and ensure uniformity. Included in this category is the development of a fraud control plan model and the fraud awareness, education and training program.

The implementation Working Party will have the responsibility for the development of these aspects of the policy.

FRAUD CONTROL ROLES AND RESPONSIBILITIES

RESPONSIBILITIES	AWARENESS	PREVENTION	IDENTIFICATION	INVESTIGATION	PROSECUTION	RESOLUTION
PRIMARY	<p>CEO'S Maintain an on going awareness program.</p> <p>Communicate with staff and other agencies, their responsibilities with regard to preventing, detecting and reporting fraud.</p> <p>Derive the maximum deterrent effect through publicising preventive measures & enforcement action.</p>	<p>CEO'S Implementation of a fraud risk assessment program.</p> <p>Accounting Policy manual whereby adequate internal controls are specified having due consideration of the costs and the assessed risk of fraud exposure.</p>	<p>CEO'S To ensure:</p> <p>a) agency's operations are regularly reviewed/scrutinised in order that identification is probable eg. regular use of internal audit in high risk areas.</p> <p>b) Management reporting mechanisms etc are in place to monitor the effectiveness of systems in place.</p>	<p>CEO's May conduct investigations of suspected fraud, which result in internal disciplinary action or referral to Police.</p> <p>POLICE Gather evidence that is admissible in court, including the interview of suspects and the initiation of prosecution proceedings.</p>	<p>CEO's Initiate Police action or internal disciplinary action.</p> <p>POLICE Prosecutes certain cases, depending on complexity.</p> <p>DIRECTOR PUB. PROSEC. Prosecutes cases initiated by Police.</p>	<p>CEO'S Review and amend systems, procedures, controls and Accounting and Property Manual.</p> <p>Advise Auditor-General's Office in accordance with TD 7.5.</p>
SECONDARY	<p>CPE/CHIEF MINISTER/AUDIT/etc Need to keep abreast and informed through</p> <ul style="list-style-type: none"> - publications - news - participating on Working Party. <p>Need to monitor any developments eg NCOM should monitor computer fraud issues.</p>	<p>TREASURY Regulation of required essential systems and procedures by way of the Financial Administration & Audit (FA&A) Act and Treasurers Directions.</p> <p>Provision of advice and assistance to agencies on systems and internal controls.</p> <p>CPE Regulation of a code of conduct by way of the Public Sector Employment and Management Act and specification of penalties (deterrent effect)</p> <p>EXTERNAL AUDIT Report on control weaknesses which come to notice.</p> <p>INTERNAL AUDIT Regular review of adequacy of controls and recommendations for improvement.</p> <p>Advice to CEO's on fraud control & risk assessment.</p>	<p>INTERNAL & EXT AUDIT The conduct of regular audits in accordance with professional standards can result in the identification and detection of fraud.</p> <p>EMPLOYEES Under the Public Service Management Act's Code of Conduct, employees have a duty to report any unethical behaviour, corrupt act or wrong doing by other employees.</p> <p>POLICE May identify actual fraud if called upon where fraud is suspected.</p>	<p>INTERNAL & EXT AUDIT May conduct preliminary investigation of fraud which comes to light during a routine audit, prior to referral to CEO or Police.</p> <p>INTERNAL AUDIT CEO's may request assistance from Internal Audit to investigate suspected fraud.</p>	<p>LAW May provide a service to CEO's in taking disciplinary action under the Public Sector Employment & Management (PSE&M) Act</p>	<p>TREASURY Review situation and revise FA&A Act or TD's where appropriate.</p> <p>CPE Review & revise code of conduct, statutory offences, penalties, etc. where appropriate.</p> <p>LAW Recovery of monies/assets obtained through fraud.</p>

In order to monitor the effectiveness of the Government's Fraud Control Policy and to identify any need for improvement, the policy shall be subject to on-going review. With the initial review to be conducted within two years of the policy's implementation.

This review should not attempt to measure the incidence of fraud itself or the change thereof. Particularly, as no increase in fraud may not necessarily mean an inadequate policy but could reflect the success of the employee awareness program resulting in an increase in the volume of reporting.

The review should be conducted every 2 years. Government as a whole and the findings reported to the Finance sub-committee. The review shall be undertaken by any number of external organizations including the Internal Audit Bureau of Accountants and Chartered Accountants for the purpose.

PART 2 - AGENCY RESPONSIBILITIES

Employee Awareness - the degree of employee awareness of Government's fraud control policy. A survey of employees would provide the necessary data on this matter including:

knowledge of the nature of fraud as an employment risk; and
intention to report fraud to management and/or the police.

Assessment of the agency's control climate; knowledge of the existence of their agency's fraud control plan; and knowledge of the nature and availability to report suspected cases of fraud.

Reporting and Investigation - the documentation of the agency in the procedures in place for reporting and investigation of fraud cases of fraud.

Fraud Control Plan - the existence of and adequacy of the fraud control plan established within agencies; and the assessment of the risk assessment methodology in operation in a given agency.

Evaluation and Review - the frequency of internal and external reviews for review of the fraud control plan.

2.2 RISK ASSESSMENT AND ACTION PLAN

The adoption of a risk management approach to fraud prevention and detection, is an essential element of the Fraud Control Policy. By utilising risk management techniques, managers are able to more clearly identify potential weaknesses in control and therefore make the most effective use of control mechanisms.

Risk Assessment

Agencies should conduct a structured risk assessment review covering all functions and operations of the agency. The review should address both the internal and external environments for the agency and the fraud risk associated with both.

The risk assessment should highlight the areas of high fraud risk, that is, where there is a likelihood of material fraud occurring.

Action Plan

Agencies should prepare an action plan which addresses the initiatives required to control the identified risks, the time frame for implementation and the area responsible.

Agencies should seek advice from internal audit on strengthening controls in areas identified as high risk.

Formal reviews of Risk Assessments and Action Plans should be undertaken at intervals not greater than two years.

2.3 FRAUD EDUCATION, AWARENESS AND TRAINING

The primary purpose of education and training in the area of fraud is to contribute to the prevention and control of fraud by raising the level of awareness amongst employees. That is, to identify what fraudulent practices are and to make it very clear fraudulent practices within the NT Public Sector will not be tolerated.

Individual agencies are charged with the responsibility to promote the level of awareness through a series of initiatives which, when moulded together, form the basis of a structured program containing at least the following elements:

- Reports of suspected fraud must be treated with discretion, to maintain the confidentiality of both the complainant and suspect, and to avoid rumours, morale problems, and the possibility of wilful destruction of evidence.
- Agencies should maintain an appropriate recording and tracking system to ensure that all instances of suspected fraud are satisfactorily resolved. The system should be designed to facilitate the extraction of statistical data for monitoring the effectiveness of the agency's risk assessment and action plans.

External Reporting

- Agencies' procedures should address the fraud reporting requirements contained in legislation or government directives. These may include the Financial Administration and Audit Act, Public Sector Employment and Management Act, and directives issued under these acts.

2.5 FRAUD INVESTIGATION

Fraud investigation is required to prove or disprove suspected fraudulent activity.

Individual agencies have the responsibility to carry out the initial fraud investigation. The way in which agencies handle the investigation process is for the agency to determine, however, regard should be paid to the following:

- that when there is reasonable grounds to suspect fraudulent activity it must be investigated;
- that procedures are in place within the agency which provide guidance on how fraud investigations should be handled and progressed;
- that where possible, appropriate employees within agencies are trained to undertake the initial fraud investigation;
- that where the initial investigation discloses a complex situation beyond the agencies investigatory capability, external expertise is sought to complete the investigation; and

4. Which of the following best fits your understanding of the internal audit function?
 (Please tick one or more)

- (a) An independent appraisal of the internal control system
- (b) Safeguarding of assets and prevention and detection of fraud
- (c) An independent review of the efficient operation of the organisation
- (d) An independent evaluation of the effectiveness of management
- (e) An internal consultant to management
- (f) Provision of specialised audit services
- (g) Examination of financial statements (irrespective of whether audit opinion is provided by internal or external audit)
- (h) Other (please specify)

5. In your opinion, what type of skills (in addition to basic audit techniques) is required to fulfil the internal audit function? (Please tick one or more)

- (a) Administrative and personnel
- (b) Finance
- (c) EDP
- (d) Specialist, industry related
- (e) Other (please specify)

6. In terms of training, internal audit may offer a means to: (Please tick one or more)

- (a) Become familiar with the organisation
- (b) Broaden the experience of existing managers
- (c) Acquire skill in dealing with people and in communicating effectively
- (d) Other (please specify)

14. Were these audits conducted as part of a cyclical audit plan or on request?

- (a) Cyclical Audit Plan
- (b) On request by Agency
- (c) On request by External Source
- (d) Annual Audit Program
- (e) Auditor-General
- (f) Other (please specify)

15. For what reasons have you engaged (or would engage) a consultant rather than the Internal Audit Bureau?

16. Do you consider the Auditor-General (or his authorised auditors) should be able to access

- (a) all Internal Audit Bureau reports Yes No
- (b) all consultancy reports Yes No

Give reasons for response

ACCOUNTING AND PROPERTY MANUAL

17. Does your Accounting and Property manual document: *(Please tick one or more)*

- (a) Internal accounting policy
- (b) Internal accounting procedures
- (c) Internal control procedures
 (financial and non financial)
- (d) Internal audit guidelines

AUDIT COMMITTEES

20. Does your organisation have an audit Committee? Yes No

21. If so, what is the role of the audit committee? ((Please tick one or more))

- (a) Review the audit plan and scope of audit
- (b) Point of contact for internal audit interviews and reports
- (c) Point of contact for external audit interviews and reports
- (d) Discuss unresolved accounting or auditing issues
- (e) Review and/or approve accounting policy
- (f) Assess performance of financial management
- (g) Review budgets and cash flows
- (h) Review the effectiveness of management information systems
- (i) Establish/review a corporate code of contact
- (j) Monitor policies in relation to privacy matters
- (k) Review equal opportunity procedures
- (l) Review policies on sensitive issues
- (m) Review policies relating to conflict of interest
- (n) Misconduct and fraud
- (o) Other (please specify)

22. Does your audit committee have defined terms of reference? Yes No

23. If yes, please detail:

(d) Bachelor degree in other field (please specify)

(e) Secondary School

(f) Other (please specify)

5. How many employees of the Internal Audit Bureau hold qualifications with any of the professional bodies?

(a) Australian Society of Certified Practising Accounts

(b) Institute of Chartered Accountants in Australia

(c) Australian Computer Society

(d) Institute of Internal Auditors

(e) Other (please specify)

6. Are there EDP audit specialists employed in your Internal Audit Bureau?

Yes No

7. What are the number of internal audit staff currently receiving the following annual income?

Range	Manager	Auditor	Administrative
(a) 20 000 - 25 000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) 25 001 - 30 000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) 30 001 - 35 000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) 35 001 - 40 000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) 40 001 - 45 000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) 45 001 - 50 000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) 50 001 and over	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

10. What are the intended sources of recruitment of internal audit staff over the next 12 months?

	Audit Manager	Auditor
(a) Internal promotions	<input type="checkbox"/>	<input type="checkbox"/>
(b) School leavers	<input type="checkbox"/>	<input type="checkbox"/>
(c) Other post-secondary college graduates	<input type="checkbox"/>	<input type="checkbox"/>
(d) University graduates	<input type="checkbox"/>	<input type="checkbox"/>
(e) Public accounting firm staff	<input type="checkbox"/>	<input type="checkbox"/>
(f) Commerce and industry staff	<input type="checkbox"/>	<input type="checkbox"/>
(g) Government departments	<input type="checkbox"/>	<input type="checkbox"/>
(h) Others (please specify)	<input type="checkbox"/>	<input type="checkbox"/>

11. If your organisation provides internal audit training, please indicate the type of training.

(a) On-the-job training	<input type="checkbox"/>
(b) Formal in-house training programs	<input type="checkbox"/>
(c) Formal outside training programs	<input type="checkbox"/>
(d) Seminars and conferences	<input type="checkbox"/>
(e) Other (please specify)	<input type="checkbox"/>

12. Budget allocation for the current financial year - 1994/95

Personnel Costs	<input type="text"/>
Administrative Costs	<input type="text"/>
Other	<input type="text"/>

18. The Internal Audit Bureau (on average) spends its time on:

	% of Time
(a) Financial auditing	<input type="checkbox"/>
(b) Auditing of operational areas	<input type="checkbox"/>
(c) EDP auditing	<input type="checkbox"/>
(d) Assisting external auditors	<input type="checkbox"/>
(e) Training	<input type="checkbox"/>
(f) Non-audit work	<input type="checkbox"/>
(g) Other (please specify)	<input type="checkbox"/>
_____	<u>100%</u>

19. What are the major problem areas in the Internal Audit Bureau? (Please tick one or more)

- (a) Inadequate resources
 - (b) EDP auditing expertise
 - (c) Employment of competent personnel
 - (d) Human relations
 - (e) Independence
 - (f) Other (please specify)
- _____
- _____
- _____

20. How would you classify the staff of the Internal Audit Bureau access to client's information? (Please tick one)

- (a) Free access
- (b) Some restriction
- (c) Total restriction in specific areas

Comments to the above:

26. What are/were the reasons for not implementing any recommendations?

27. Is Internal Audit Bureau represented on any advisory, promotional or educational committees or working parties?

Yes No

28. If yes, give details:

(a) Interdepartmental: _____

(b) External: _____

29. Does the Internal Audit Bureau have a marketing strategy in respect of its services?

Yes No

30. If yes, give details:

35. Was a cost benefit analysis undertaken?

Yes No

36. What was the extent of savings or benefits expected from outsourcing?

37. How was the internal audit provider chosen? e.g. tendering process

38. When was the internal audit outsourced?

39. What was the objective for outsourcing the internal audit function/program?

- | | |
|------------------------------------|--------------------------|
| (a) Improve service delivery | <input type="checkbox"/> |
| (b) Concentrate on core activities | <input type="checkbox"/> |
| (c) Solve an immediate problem | <input type="checkbox"/> |
| (d) Acquire skills | <input type="checkbox"/> |
| (e) Lack of inhouse expertise | <input type="checkbox"/> |
| (f) Comply with Government policy | <input type="checkbox"/> |
| (g) Other (please specify) | <input type="checkbox"/> |

40. Do you have terms for the outsourcing agreement?
