

**Session 8**  
**The value equation –**  
**What makes a good internal audit function**

**Talk 1**  
**Building the maximum coverage with minimum resources audit  
plan**

*Presented by*

**Michael Quirk MIIA (Aust)**

Head of Internal Audit  
North Shore Councils

# GETTING THE MOST FROM THE LEAST

---

Putting Economy, Efficiency and Effectiveness into  
Internal Audit

Local Government Internal Audit Forum 2017 –  
M.P.Quirk

# Our “Value Proposition”

Internal auditing is an independent, objective assurance and consulting **activity designed to add value and improve an organization's operations**. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

International Standards for the Professional Practices of Internal Audit, March 2017, Institute of Internal Auditors

# Focus on Risk

## 2010 – Planning

The chief audit executive **must establish a risk-based plan** to determine the priorities of the internal audit activity, **consistent with the organization's goals**.

*Interpretation: To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.*

2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2 – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

# Focus on Risk

## Annual and Long-term Plan

- Enterprise Risk Register and Framework
- Assurance mapping
- A seat at the Executive
- Environment Scan
- Audit universe
- Resource Capability

Rolling Audit Program?

# Focus on Risk

## Engagement Planning

- Overall understanding from key stakeholders
- Identifying key players
- Management's perception of key risks
- Determining all the known risks and perceived risks
- Determining the REAL risks
- Design procedures to test REAL risks

# Document Risks, Then Tests

aal Projects -

Debtors Control - GENERIC - Archived Project

Planning Fieldwork Results Issues

Debt Recovery & Receipting

Overview Project Plan Execute Procedures

Audit Objective Description: Debt Recovery & Receipting View

**Risk**

3-1: Authorised Receipts  
Debt receipts are not authorised and unaccountable in Council systems.

3-2: Completeness of Receipt  
Debt receipts may not be fully recognised in Council's systems.

3-3: No Receipt or Account for Payment  
Receipt of debt payment may not be recorded.  
Corrupt/fraudulent treatment of monies.

3-4: Debt Recovery Policy/Procedures  
Debt recovery may not be in accordance with policy/procedure.

3-5: Authorisation of Payment Plans  
Payment plans or recovery options may not be authorised.

aal Projects -

Debtors Control - GENERIC - Archived Project

Planning Fieldwork Results Issues

Debt Recovery & Receipting

Overview Project Plan Execute Procedures

Audit Objective Description: Debt Recovery & Receipting View View by: Risk Procedure

Procedure	Risk count	
3-1: Debt Recovery and Receipting Procedures Determine through procedure review and discussion the controls over debt recovery and receipting in financial system. Analyse processes to identify key controls for ensuring completeness accuracy authenticity and timeliness of debt recovery.	0	Associate Risk
3-2: Debt Recovery Walkthrough Conduct walk-through of debt recovery from commencement of recovery action to recording in receipting system in order to identify risks to completeness and control effectiveness.	0	Associate Risk
3-3: Review of Debt Recovery Procedures Analyse debt defined debt recovery procedures to determine that they are consistent, authorised, and applied in a timely manner.	0	Associate Risk
3-4: Sample Debt Recoveries Select a sample of debt recoveries to evidence consistent, timely and authorised recovery of debts.	0	Associate Risk
3-4-1: Debt Recovery Analytics Perform through sample of debt data	4	Associate Risk

# Investing in Efficiency

- Cloud-based or mobile technology – as much as possible in real-time
- Database – enter it only once
- Data analytics – produce flags, corroborate findings
- Standards require “sufficient” and “appropriate”, not absolute and unequivocal



# Results of Internal Audit

Must be understood and of value to:

- Staff responsible for implementing improvements
- Managers and executives charged with managing the risks
- Audit Committee members seeking assurance that the above is being achieved

# Focus on the words, the details will look after themselves

## Management Recommendation

### Financial Acquittal

Executive Owner: Director Corporate

Roles and Responsibilities (3)		Issue Owner: Finance Manager	Remediation Deadline: June 10, 2016
Details		Risk/Impact	Recommendation
Our review revealed that there is no clear process in place to identify, monitor and manage grant administrators who do not complete acquittal and reporting processes satisfactorily. However, our detailed review of the audit samples revealed no exceptions.		Not submitting financial acquittal on time basis may increase the risk of reputational damage to Council, and future funding request being declined.	We recommend Council enhance the current "Grant Register" maintained by the Finance department to monitor the submission of financial acquittal reporting where required.
Status: OPEN	Issue ID: 3-3	Severity: LOW	Escalation Level: Owner
<p><b>Remediation Status:</b> Remediated - Awaiting Verification</p> <p><b>Management Response &amp; Action Plan:</b></p> <p>The "Grants Register" maintained within Finance has been enhanced to incorporate details of Grants acquittals. These details will be collected from Grant administrators/ within Council</p>			

# Create Clear Summaries

## Issue Summary

---

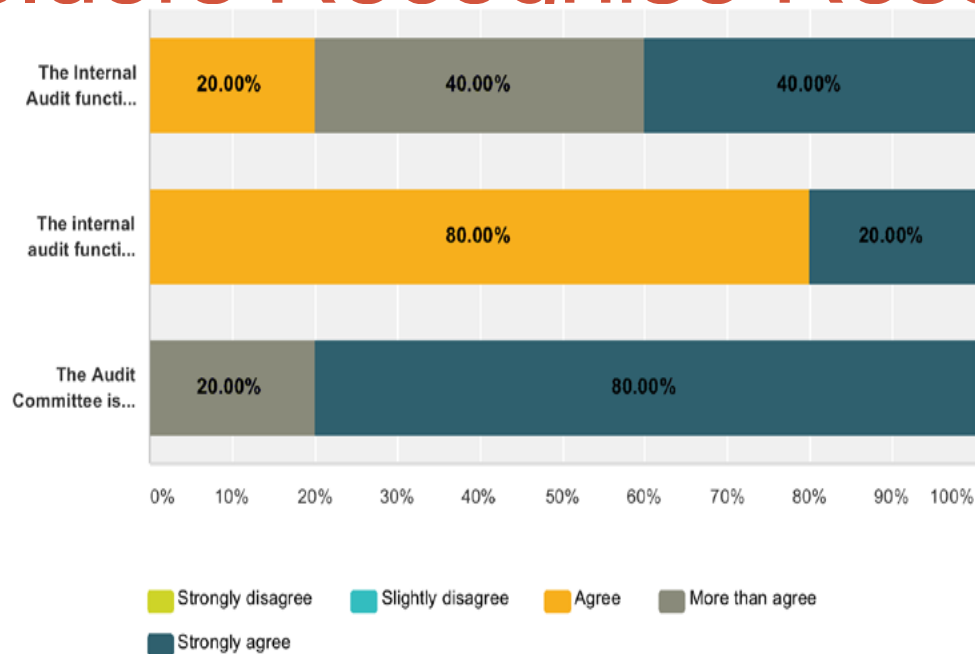
0 Findings and 7 Management Recommendations

Issue ID	Title	Rating	Escalation Level	Executive Owner
1-3	Operational Risks Documentation	MEDIUM	Owner	Director, Customer and Corporate
3-2	Conflicts of Interest	LOW	Owner	Customer and Corporate Director
3-3	Financial Acquitall	HIGH	Owner	Director, Customer and Corporate
3-1	Monitoring and Control of Grant Documentations	HIGH	Owner	Director, Customer and Corporate
2-1	Reconciliation of Records	HIGH	Owner	Director, Customer and Corporate
3-2	Risk Assessment	MEDIUM	Owner	Director, Customer and Corporate
3-2	Milestone Reports and Annual Reports	MEDIUM	Executive	Director Planning & Infrastructure

# Key Stakeholder Judgement

	Strongly disagree	Slightly disagree	Agree	More than agree	Strongly agree	Total	Weighted Average
The Internal Auditor recognises the authority of the Audit Committee.	0.00% 0	0.00% 0	20.00% 1	0.00% 0	80.00% 4	5	4.60
The Internal Auditor understands the needs and expectations of the Audit Committee.	0.00% 0	0.00% 0	20.00% 1	20.00% 1	60.00% 3	5	4.40
The Internal Auditor understands the role, responsibility and operation of the Audit Committee.	0.00% 0	0.00% 0	20.00% 1	0.00% 0	80.00% 4	5	4.60
The Internal Auditor has the competency to perform their duties.	0.00% 0	0.00% 0	20.00% 1	0.00% 0	80.00% 4	5	4.60
The Internal Auditor actively participates in Audit Committee meetings.	0.00% 0	0.00% 0	20.00% 1	0.00% 0	80.00% 4	5	4.60
The Internal Auditor offers suggestions and solutions to issues during discussions.	0.00% 0	0.00% 0	20.00% 1	40.00% 2	40.00% 2	5	4.20
Audit assignments were completed in a timely manner.	0.00% 0	20.00% 1	40.00% 2	20.00% 1	20.00% 1	5	3.40
Are the external and internal audits properly co-ordinated and are all persons involved in the process acting with unqualified independence in a spirit of trust, confidence, and co-operation?	0.00% 0	0.00% 0	20.00% 1	60.00% 3	20.00% 1	5	4.00
Overall, internal audit has made a valuable contribution to the achievement of the Council's objectives and improvements in control.	0.00% 0	0.00% 0	20.00% 1	40.00% 2	40.00% 2	5	4.20

# Stakeholders Recognise Resource



	Strongly disagree	Slightly disagree	Agree	More than agree	Strongly agree	Total	Weighted Average
The Internal Audit function has a structure that meets the needs of the Council and the Audit Committee.	0.00% 0	0.00% 0	20.00% 1	40.00% 2	40.00% 2	5	4.20
The internal audit function has access to sufficient resources to carry out its responsibilities, including completion of the approved internal audit plan.	0.00% 0	0.00% 0	80.00% 4	0.00% 0	20.00% 1	5	3.40
The Audit Committee is satisfied with the level of skills and expertise of the internal audit team.	0.00% 0	0.00% 0	0.00% 0	20.00% 1	80.00% 4	5	4.80

# Putting Three E's into Internal Audit

- Understand more than financial statement risk
- Keep it simple – let technology do the tough stuff
- Build simple evaluation systems for each stakeholder group – respond to feedback trends

THANK YOU