

INQUIRY INTO NSW GOVERNMENT'S USE AND MANAGEMENT OF CONSULTING SERVICES

Organisation: The Institute of Internal Auditors Australia

Date Received: 9 August 2023



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Ms Abigail Boyd MLC
Chair
Public Accountability and Works Committee
Parliament House
Macquarie St
SYDNEY NSW 2000

Dear Ms Boyd

Inquiry in the Government's use and management of consulting services

The Institute of Internal Auditors – Australia (IIA-Australia) appreciates the opportunity to provide this submission to the Inquiry. We believe that our comments are a balanced representation of the views of our membership.

We represent 3,000 internal audit professionals, around 35% of whom work within government services. We also have many members working within the professional services firms. Therefore, this inquiry is of critical importance to IIA-Australia and our members.

Broadly, we understand that the professional services firms play an important role in helping government agencies discharge their duties. We also know that internal audit plays a crucial role in ensuring that there is effective governance, risk management and control in the organisations we support. Therefore, we believe placing greater emphasis on professional internal audit processes (both within government and the professional services firms) will help ensure consultants may continue to fulfil the needs of government agencies, without compromising good governance.

Professional Standards in Internal Audit

IIA members are bound by Standards (the *International Professional Practices Framework* or IPPF), which has three components: the *International Standards for the Professional Practice of Internal Auditing* (Internal Audit Standards); the *Code of Ethics*; and other recommended guidance. While the Heads of Internal Audit within the service firms are typically members, the personnel that work down the line are often not. We believe mandating professional membership requirements for all internal audit staff would strengthen governance within the firms.

IIA-Australia's Professional Responsibility and Ethics Committee (PREC) is charged with promoting an understanding of the professional responsibilities of members and monitoring emerging ethical issues. Should any complaints be received in relation to members and their adherence to the

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Standards or Code of Ethics, PREC determines whether the complaint should be investigated by a Disciplinary Tribunal. Should a member be found to have breached the Standards or Code of Ethics, the Disciplinary Tribunal has the authority to recommend appropriate action against this member, which may include expulsion from the Institute. Consultants who are members of IIA-Australia are required to follow the Standards set out in the IPPF and are subject to disciplinary measures if they do not.

Additionally, IIA-Australia (and others) provide independent five-year External Quality Assessments (EQA) of internal audit functions. Such assessments are required under the global internal audit Standards. They provide feedback to the internal audit function of its conformance, or otherwise, with the internal auditing Standards. While the NSW Government has mandated EQAs for its agencies, the reviews are not mandatory within consulting firms themselves.

Recommendations

We believe implementing the following would help ensure public expectations of good governance are met and that external consultants operate efficiently, ethically, and responsibly:

1. Government agencies should consider selection criteria for consulting engagements that include membership of a professional association as a minimum requirement for all consultants who perform internal audit work for government.
2. Government agencies should require consultants who perform internal audit work to demonstrate that they have had a five-yearly EQA performed on the internal audit services provided by their organisation.

I would welcome to opportunity to appear before the Committee to discuss these recommendations and how internal audit can strengthen governance within government agencies and the consultancy firms upon which they rely.

Yours sincerely

Peter Jones
Chief Executive Officer
The Institute of Internal Auditors Australia

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Annexure A

About IIA-Australia

The IIA-Australia has 3,000 members across all states and territories. Our members are in a diverse range of fields from public and private sectors, education, and also public practice and consulting. The IIA-Australia is part of an international body (the Institute of Internal Auditors Inc), which has more than 220,000 members in internal auditing, corporate governance, internal control, information technology audit, education and security. The Institute has members in more than 120 countries and is the acknowledged leader in standards, certification, education, research and technology guidance for the internal auditing profession. The Institute has a Code of Ethics and Standards for the Professional Practice of Internal Auditing.

What is Internal Audit

Internal audit is the process of evaluating the procedures and policies within an organisation to identify potential risks and enhance good governance.

By remaining independent of management, internal audit provides objective, unbiased, evidence-based recommendations to management and the Board, facilitating fully informed decision-making.

Internal audit is a globally recognised profession supported by professional standards and a Code of Conduct. Accreditation is by completing the Graduate Certificate in Internal Audit course or the Certified Internal Auditor (CIA) program.

Our Mission/Purpose:

To advance the profession and practice of internal auditing and those specializing in governance, risk and controls

Our Vision:

Our members are recognized professionals who are sought after as trusted advisors to boards and executives

Our Guiding Principles:

- to deliver value to members in everything we do
- represent assurance professionals and promote their interests
- raise awareness of assurance professionals and the important role they play in governance, risk and controls
- remain closely aligned to IIA-Global
- operate according to appropriate values, ethical standards and Codes of Conduct

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- aim to have most members become professional members (PMIIA)

Our Main Activities Include:

- providing standards, guidance and information on internal auditing best practices
- providing professional development activities, education and certification
- undertaking quality assurance services
- advocating for and promoting the profession
- representing Australia on international committees and on the IIA Board.

Internal Auditing in the Public Sector

Currently, internal audit practitioners are hampered because there is no consistency in legislation, regulations and guidance documents at the Commonwealth, State or local government levels. Public sector internal auditors in many jurisdictions are effectively working with one hand tied behind their back. NSW has established policy that guides public sector organisations in the establishment of audit committees and internal audit.

Internal audit is the key to more robust governance and that can only be good news for politicians, department heads, audit committee members and public servants, and the taxpayers of Australia.

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