



28 August 2023

Sean Turner
Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Mr Turner

Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry

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 good governance, risk management and control. 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 engagement partners 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 consultants 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 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,

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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, provides 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. EQAs are currently not mandatory within federal government agencies nor the consulting firms themselves.

Governance and Internal Audit

Overall, we believe the problems identified with the use of external consultants within government represent a failure in effective governance. While there was unquestionably unethical (and at times illegal) behaviour, that this behaviour could continue undetected and unreported for so long, points to inadequate structural measures to identify and manage such risks, both within government and the services firms themselves.

We believe strengthening the governance frameworks by establishing an internal audit function within the professional services firms would help avoid these issues in the future, while also ensuring the management of the framework for service firms does not become overly onerous and complex. A successful framework that should be considered, and which applies to all listed entities in Australia, is the ASX Corporate Governance Council Corporate Governance Principles and Recommendations. This operates on an 'if not, why not' basis and is reported annually.

As the third line of assurance, internal audit provides the governing body with holistic oversight of risk management and governance structures, which helps foster a culture of continuous improvement and responsible oversight.

Embedding mandatory internal audit functions within the firms, would help improve governance. Internal audit provides an objective and evidence-based view of governance processes, risk management and internal controls.

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. Require that all contractors undertaking internal audit work for government agencies are members of a professional association and as such, are bound by professional Standards and Code of Ethics.
2. Mandate five-yearly EQAs on the work undertaken by in-house professional services firm internal auditors, as well as any internal audit work they may be performing for government.
3. Introduce a mandatory governance reporting framework for professional services firms who contract to government.
4. Ensure that professional services firms have robust internal audit processes, examining their work with government agencies. These internal audit reports should be made available on request to the audit committee of any government department employing the consultancy.

I would welcome the 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

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.

Internal audit reports to those charged with governance. By remaining independent of management, internal audit provides objective, unbiased, evidence-based recommendations to management and the governing body, 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. Both these accreditation pathways have a degree as an entry pre-requisite.

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

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- 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
- 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.