

SENATE LEGAL AND CONSTITUTIONAL LEGISLATION COMMITTEE  
AUSTRALIAN FEDERAL POLICE

**Question No. 161**

**Senator Ludwig asked the following question at the hearing on 17 February 2006:**

- a) Who within your organisation is responsible for conducting audits?
- b) What resources and budget are allocated to this department?
- c) How many members are on the audit organisation?
- d) Please provide a copy of the Quality Review of the audit section undertaken by the Institute of Internal Auditors – Australia.
- e) Indicate whether or not the Review made any recommendations regarding the internal audit group?
  - i) If so, what were they and are they being implemented?
- f) Please provide a list of all internal audits conducted, and a copy of each of them.
  - i) If you are not able to provide a copy of each of the internal reports, are you able to indicate the terms of the audit, whether the audit made any recommendations, what the recommendations were, what action was taken to implement the recommendations and whether the recommendations have been fully implemented?
- g) What were the findings of the three significant audits mentioned on page 103 of the annual report, and any recommendations they made?
- h) What action has been taken on the recommendations, and when will they be implemented?
  - i) How does the internal audit office assess topics for audit?

**The answer to the honourable senator's question is as follows:**

- a) The AFP has a dedicated Internal Audit Team responsible for conducting audits. The team also uses the services of an appropriately security cleared 'panel of consultants' to undertake the annual Internal Audit Program.

The AFP Internal Audit Team Charter describes the function as:  
*an independent review function established within an organisation to systematically review all operations for the primary purpose of advising on the efficient, effective and ethical use of resources by the organisation's operations. It is an essential accountability mechanism.*

AFP Internal Audit reports to an audit committee known as the Security and Audit Team (SAT), which is chaired by the Chief Operating Officer, has two independent members and six executive management members.

- b) The budget allocated to the Internal Audit function for 2005-2006 is \$983,130 including salary costs. Other resources include office accommodation and equipment within AFP National Headquarters.

- c) The AFP Internal Audit Team consists of one Manager Internal Audit, and five other personnel. The audit panel mentioned above provides access to a large number of qualified audit staff to meet workload as required.
- d) A copy of the Executive Summary from the Institute of Internal Auditors Review is provided at the Attachment to this document.
- e) Recommendations arising from the Review are included in the Attachment to this document. All of the recommendations except #9 were accepted without qualification. In regard to that exception the SAT's existing process of SAT monitoring the implementation of a selection of recommendations arising from audit reports was preferred and has been maintained.

Of the agreed recommendations many required the Commissioner to approve changes in the Charters of the SAT and of Internal Audit. These new charters have been approved. The implementation of recommendations numbered 11, 13 and 15 remain to be fully implemented and the timeframe allowed for implementation has yet to expire.

- f) The AFP is unable to provide the Internal Audit reports as requested as these reports contain detail on sensitive operational matters that are written for an informed audience unlike the public reports of the Auditor-General. If divulged the information in these reports could adversely affect AFP operational effectiveness and the safety of personnel. It is considered that the same consequence would result from the release of just the audit terms, recommendations and implementation.

The Auditor-General has undisputed access to all Internal Audit reports, and it would be open to the Auditor-General to follow up and report publicly on matters arising from an Internal Audit report if it was thought to be in the public interest.

As part of the consultative approach of AFP Internal Audit every effort is made to resolve agreed actions between the audit team and the relevant Manager, with a view to the latter taking ownership of the subsequent action. This in no way limits Internal Audit to report of the residual risk that it assesses would apply following the implementation of agreed actions, and to report other actions that Internal Audit believes are necessary and appropriate even though they have not been agreed by the relevant Manager.

- g) Refer to answer f).

- h) Refer to answer f).
- i) AFP Internal Audit operates to a rolling three year Strategic Audit Plan, which is pitched at a high level. The annual Internal Audit Program is derived from the Strategic Audit Plan and sets out the intentions of Internal Audit in more detail. SAT approves both the Strategic Audit Plan and the Internal Audit Program.

The process leading up to that approval takes account of range of factors, including:

- the corporate strategic risk profile of the AFP;
- the risk assessment underpinning the Fraud Control and Anti Corruption Plan;
- the need to undertake mandatory audits that provide assurance to the Commissioner on compliance;
- the quantum of resources devoted to the function to be audited;
- previous audit coverage of the subject by Internal Audit and the Auditor-General, and future audit coverage as foreshadowed by the Auditor-General;
- requests from SAT members that a particular function be examined or re-examined following a previous audit; and
- requests from line management for independent assessments of their functions with a view to seeking recommendations for improvement.

SAT reviews the draft plan and the draft program as prepared by the Manager Internal Audit with a view to balancing audit coverage among outputs and strategic risks. Under the standard AFP Internal Audit Protocol a more specific risk assessment is conducted as part of the start up phase of each audit undertaken.

## **Executive Summary**

### **1.1 Overview**

At the request of the Security and Audit Team (SAT), the Institute of Internal Auditors – Australia (IIA-Australia) conducted a Quality Assurance Review of the operations of the Internal Audit section at the AFP.

As part of the review, the Quality Assurance Review (QAR) team from IIA-Australia met with a number of stakeholders including most SAT members, other senior AFP managers and all members of the Internal Audit (I/A) section. All told, 12 interviews were conducted.

The key findings of the review have been discussed with the Manager Internal Audit and are summarised in this Section, whilst the review methodology and the results of a client survey are set out in Section 2. The detailed findings, comments and recommendations for improvement are set out in Sections 3 to 7.

### **1.2 Objectives of the Review**

When the request to undertake the review was received, the IIA-Australia submitted a proposal outlining the intended approach and timeframe which was accepted with the work starting in March 2005.

The key objectives of the review were:

- Assess the efficiency and effectiveness of internal audit
- Review audit planning and risk assessment leading to the annual audit schedule
- Evaluate the internal audit organisational structure and resources
- Determine perceptions of internal audit in the organisation
- Examine internal auditing techniques and methodology
- Identify ways to enhance internal audit policies and practices
- Identify opportunities for improvement
- Provide an opinion as to whether internal audit conforms to the IIA Standards.

In addition, other aspects addressed were:

- The operation of the panel of audit service providers – management, provision of quality and value for money
- The current mix of in-house and outsourced work – effectiveness and appropriateness
- The adequacy of the resources
- Internal Audit section's position in the organisation structure and relationship with SAT

### 1.3 Summary

In summary the QAR team found that, at the time of its review, the Internal Audit section is operating satisfactorily, and in some respects could rightly claim to be demonstrating better practices. Our review showed there was compliance of the Internal Audit section's operations with the IIA standards.

However, as with many internal audit functions, there are a number of areas where improvements are possible, including:

- The annual audit planning exercise would benefit from direct linking with the AFP's risk management framework as it evolves, as well as wider consideration of other influencing factors and interactive discussions with senior executives
- Timeliness in the conduct of audits, preparation of audit reports and conclusion of corrective actions could be improved.

These, and other, opportunities for improvement are recorded as recommendations in the body of our report and are drawn together on the next page for convenience of reference and to allow allocation of action officers and deadlines to be added for monitoring by management and the SAT.

As can be imagined, auditing auditors can sometimes be problematical but, at AFP, the QAR team was received warmly and, without exception, all Internal Audit section staff were helpful and gave us their full co-operation. Similarly we were cordially received by all those we interviewed. The IIA-Australia is pleased to acknowledge this assistance.

It should be noted that, as the QAR team was only cleared to "Positions of Trust" level, some higher classified papers had to be removed from the audit documentation we reviewed. We do not believe this unduly impacted our review.

### 1.4 List of Recommendations from the Report

No.	Recommendation	Para Ref	Import- ance
1	<i>SAT should take action to increase adherence by all AFP staff to the 21 day turnaround requirement for audit reports.</i>	3.1	High
2	<i>SAT should consider taking into account a wider range of risk indicators when assessing projects for inclusion in the Annual Audit Plan.</i>	4.5	High
3	<i>The independent members of SAT should meet privately with the Manager Internal Audit at least annually to seek assurances about his independence.</i>	5.2	High
4	<i>SAT should require line managers to nominate an action officer and a completion date in relation to remedial action agreed in response to audit report recommendations.</i>	7.2	High
5	<i>SAT should set a target for the overall timeframe for the conduct of audits.</i>	3.1	High / Medium
6	<i>The Internal Audit section should engage in face-to-face consultation with line managers about business risks, when compiling the draft AAP.</i>	4.5	High / Medium

7	<i>SAT should meet privately with the Manager Internal Audit (and the ANAO) annually.</i>	5.2	High / Medium
8	<i>SAT should monitor the adequacy of the Internal Audit section resources in the light of demands which might emerge from the progressive implementation of the corporate Risk Management arrangements, the recommendations from this report and other significant AFP developments.</i>	5.3	High / Medium
9	<i>The Manager Internal Audit should regularly report on, and SAT should monitor, the timeliness with which agreed actions are concluded.</i>	7.2	High / Medium
10	<i>The Manager Internal Audit should attempt to resolve disagreements between auditors and line managers in such a way as to ensure prompt submission of reports to SAT, while at the same time reserving the Internal Audit section's right to review the effectiveness of any preferred management action in the future.</i>	7.2	High / Medium
11	<i>SAT should review the adequacy of existing KPIs for the Internal Audit section, and include targets when setting KPIs for 2005/2006 and beyond.</i>	3.1	Medium
12	<i>As the AFP's risk management framework evolves, the AAP should draw more heavily on it for identification of possible areas to audit and completed audits should be used to update the framework with the independent assessment of controls and risks.</i>	4.5	Medium
13	<i>SAT should consider the feasibility of including, and monitoring, consultancy activities in the internal audit function.</i>	4.5	Medium
14	<i>SAT should review in 18 months' time the effectiveness of the proposed new structure for the Internal Audit section.</i>	5.3	Medium
15	<i>Consistent with the Audit Protocol, the Internal Audit section should ensure that control risk assessments are carried out at the beginning of all audits and the results documented in the working papers.</i>	7.1	Medium
16	<i>The Internal Audit section should ensure that reasons for non-adherence to the 21 day turnaround time for reports – by both Internal Audit staff and line management- are documented in the working papers.</i>	7.1	Medium
17	<i>The Internal Audit section should liaise annually with Planning and Performance in order to avoid duplication of effort between audits and other review activities.</i>	4.5	Medium / Low
18	<i>Both SAT and the Internal Audit section should consider opportunities for staff in the Internal Audit section to become more visible to staff generally across the AFP.</i>	6.3	Medium / Low