Volume 2.0 Governance

Overview of Volume 2

Volume 2 discusses the application of fundamental governance requirements, including the implementation and review of systems of internal controls, agency management, internal and external audit, and risk management.

The *Financial and Performance Management Standard 2009* requires agencies to have regard to the Handbook when establishing their internal control systems and processes. Agencies must comply with the contents of the Handbook when they apply to agency circumstances. Agencies will therefore need to be mindful of this requirement when establishing and implementing internal controls and operational processes.

This Volume consists of the following Information Sheets:

Reference	Information Sheet Title	Date Issued
2.1	What is Governance?	January 2017
2.2	What is a Control Environment?	January 2017
2.3	What are Internal Controls?	January 2017
2.4	Limitations of Internal Controls	January 2017
2.5	Chief Finance Officer	January 2017
2.6	Head of Internal Audit	January 2017
2.7	Management Committees	January 2017
2.8	External Audit	January 2017
2.9	Internal Audit	January 2017
2.10	Planning	January 2017

Information Sheet 2.1 – What is Governance?

Introduction

Section 7 of the *Financial and Performance Management Standard 2009* (the Standard) states that governance is the way the department or statutory body manages the performance of its functions and operations.

Section 7 further states the accountable officer or statutory body must ensure an appropriate governance framework is established that:

- incorporates the cultural and operational aspects of that agency that are influenced by its actions and decisions
- includes the concepts of
  - openness, integrity and accountability
  - due care
  - public defensibility
- incorporates the ethical principles under section 4 of the *Public Service Act 1994*, and
- includes a performance management system, a risk management system and an internal control structure.

This Information Sheet is designed to assist agencies in understanding the principles of management and governance that support best practice in the delivery of agency objectives and services.

Definition of governance

Governance is generally accepted to encompass management's behaviour and accountability for the way it directs an agency's operations. It may also relate to the agency's structure, responsibilities, competencies, reporting and risk management processes.

Descriptions of governance include:

"… governance is the manner in which an organisation is controlled and governed in order to achieve its strategic goals and operational objectives. Inherent … is the…establishment of controls to ensure that the goals and objectives will be met."[3]

"… governance is the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations ... (It) influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised."[4]

[3] Queensland Audit Office, Report to Parliament No. 7 1998-99
[4] Corporate Governance Principles and Recommendations with 2010 Amendments, ASX Corporate Governance Council, Australian Stock Exchange, 2007

Governance also determines the nature of the agency's control environment and associated internal controls (refer *Information Sheet 2.2 – What is a Control Environment?* and *Information Sheet 2.3 – What are Internal Controls?*).

No single governance model applies equally to all agencies when creating an appropriate governance structure.

Governance principles

There are a number of Information Sheets within Volume 2 which provide more detailed information about the principles that underpin effective governance models. Additional principles that are associated with strong governance models include:

- agency vision and purpose statements that are articulated and understood throughout the agency
- the knowledge that the accountable officer / chief executive and senior management have adopted the agency vision, purpose and governance principles in the discharge of their roles and responsibilities
- the establishment, documentation and communication of the agency organisational structure defining roles, responsibilities and authorities
- the performance of the chief finance officer in the exercise of duties and responsibilities of the position
- the creation and implementation of sound systems of cost effective internal controls, guidelines and operational processes
- an effective internal audit function, and
- appropriate committees, such as audit and risk management committees, which support the accountable officer, chief executive and agency management in the efficient, effective and economical delivery of the agency's objectives and services.

Implementation of an agency's governance structure must be based on the specific requirements of the agency's circumstances, keeping in mind the fundamental principles outlined in section 7 of the Standard.

Governance structures require regular monitoring and revision to meet the changing environments in which agencies operate. Legislative and regulatory changes, revised agency objectives and services, or changed social and economic conditions all impact on the environment in which the agencies operate.

A *Review of Internal Audit Capacity in the NSW Public Sector* conducted by the New South Wales Department of Premier and Cabinet highlighted costs to government of not recognising the internal audit function as a significant and effective part of agency governance. Some examples of costs incurred through not improving governance structures highlighted in the report include inefficient use of existing resources, lack of reliable information for decision making, and increased opportunities for fraud and maladministration. Attention to regular monitoring and revision of agency governance is encouraged.

Related resources

- Review of Internal Audit Capacity in the NSW Public Sector, Department of Premier and Cabinet, New South Wales, 2008
  http://www.dpc.nsw.gov.au/__data/assets/pdf_file/0015/20166/IA_Report-Final_16_April_2008.pdf
- Financial Accountability Handbook:
  - Information Sheet 2.2 – What is a Control Environment?
  - Information Sheet 2.3 – What are Internal Controls?
  - Information Sheet 2.4 – Limitations of Internal Controls
  - Information Sheet 2.5 – Chief Finance Officer
  - Information Sheet 2.7 – Management Committees
  - Information Sheet 2.9 – Internal Audit
  - Information Sheet 2.10 – Planning

  http://www.treasury.qld.gov.au/office/knowledge/docs/financial-accountability-handbook/index.shtml

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.

Information Sheet 2.2 – What is a Control Environment?

Introduction

“The control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity’s internal control and its importance in the entity. The control environment sets the tone of an organisation, influencing the control consciousness of its people.”[5]

This Information Sheet is designed to assist agencies in understanding the fundamental elements that shape each agency’s control environment.

Control environment

The control environment includes an agency’s:

- internal control processes and requirements
- organisational structure
- reporting structure
- delegations and approval processes
- committee structure and framework
- code of conduct, and
- human resource policies and practices.

While an agency’s internal controls and structures underpin a strong control framework, management should also have an understanding of the importance of the agency’s culture in influencing the effectiveness of the controls. For example, an agency may have a well-documented risk management process, but without active management support, the process may not be adopted to the extent required to ensure best practice concerning risk identification and management.

Elements that shape agency culture and influence the effectiveness of agency internal controls include:

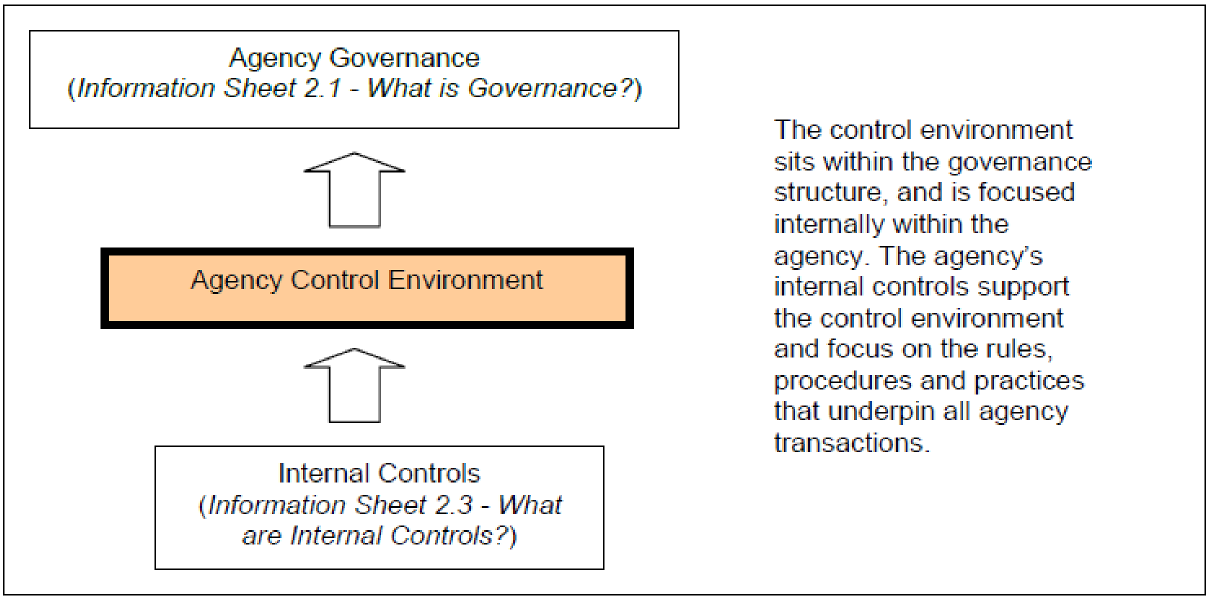
- communication standards
- enforcement of integrity and ethical values
- appointment of staff with appropriate qualifications and competencies
- commitment to professional work practices and standards
- participation in agency governance activities, and

[5] Auditing Standard ASA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, para A76. Australian Auditing and Assurance Standards Board, http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards.aspx.

- management's philosophy and operating style.

Relationship between agency governance, the control environment and internal controls

The relationship between governance, the control environment and internal controls is shown below.



Management's responsibilities within the control environment

Agency management plays an essential role in maintaining a strong and effective control environment. Without management support, the application of internal controls and operational systems may be less than effective. The responsibilities of the role can be broadly categorised into those of effective leadership and management of agency controls and processes.

The leadership role undertaken by agency management should:

- create a positive control environment
- create an open workplace where concerns and comments are welcomed and actioned
- ensure all duties are performed in an ethical and professional manner
- endorse and actively support agency systems of internal controls and operational processes
- communicate and provide training on the importance of delivery of agency objectives and services, and
- actively encourage agency employees to adhere to the whole of Government code of conduct.

Responsibility for agency financial internal controls and processes will involve management in:

- establishing appropriate internal controls and procedures that allow for the efficient, effective and economical management of the agency's financial resources
- clearly defining key responsibilities and delegated authority levels
- completing agency risk assessments and implementing appropriate offsetting controls and processes, with particular attention, where necessary, to areas with potential for fraud
- establishing processes and standards for reporting on operational and financial performance
- establishing appropriate lines of reporting
- monitoring the effectiveness of agency controls and processes through results reported to the executive management group, and
- ensuring ongoing training for staff in the agency financial internal controls and processes.

(Refer to *Information Sheet 4.1 – Monitoring and Assessment of Internal Controls,* and *Information Sheet 5.1 – Management Reporting.)*

Staff responsibilities

All staff have a role to play in ensuring that internal controls operate effectively to achieve the agency's objectives and services.

For example, if a staff member becomes aware of deficiencies in the internal controls or operational processes, there is a responsibility to report such instances to management. Where it is deemed that the deficiency should be subject to a Public Interest Disclosure (PID), the *Public Interest Disclosure Act 2010* provides protection for those staff members who speak out by making a PID.

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.

Information Sheet 2.3 – What are Internal Controls?

Introduction

Section 8(1) of the *Financial and Performance Management Standard 2009* (the Standard) requires each accountable officer and statutory body to establish a cost-effective internal control structure for their department or statutory body.

Internal controls are methods or procedures implemented by agency management to:

- ensure efficiency and effectiveness of agency operations and delivery of services
- ensure accuracy and reliability of financial and management information
- ensure compliance with all financial, regulatory and operational requirements, and
- assist in achieving the agency's objectives and delivery of its services by managing risk exposure, including highlighting possible fraud and inefficiency.

The purpose of this Information Sheet is to outline the objectives and characteristics of internal controls, and the need for documentation and ongoing review of the controls.

Purpose of internal controls

Internal controls should provide reasonable assurance to the accountable officer or statutory body that:

- the activities of the agency are conducted in a manner that facilitates the achievement of its objectives and the delivery of its services in an orderly and efficient manner
- error, fraud and other irregularities are prevented as far as possible and promptly detected if they do occur
- assets are safeguarded from unauthorised use or disposal and are adequately maintained
- operational activities and individual transactions are complete and accurately recorded
- agency financial and performance management reports are timely, relevant, reliable and accurate, and
- there is compliance with applicable legislative and regulatory requirements (for example, the financial legislation, government policies and guidelines, applicable Australian accounting standards and other authoritative pronouncements, and internal policies and procedures).

An effective system of internal controls should act as an 'early warning' system that flags unsatisfactory agency performance. Additionally, the system of internal controls should:

- be documented in the agency's financial management practice manual
- be embedded in the operations of an agency's management and governance processes, and form part of its culture
- be capable of responding quickly to evolving risks to the agency in the delivery of its services

- include procedures for reporting significant control weaknesses that are identified, together with procedures to undertake corrective action, and
- include processes to ensure that all staff receive appropriate and sufficient training about the internal controls, to enable them to perform their work effectively and to identify where improvements can be made. The training may need to be tailored to address different staff needs, for example, senior officers may need training to address their roles as financial delegates, whereas operational staff may need training to help them identify issues when processing transactions.

A system of internal controls can only provide ‘reasonable assurance’ to the accountable officer or statutory body on the performance of the agency in the achievement of the above objectives (refer to *Information Sheet 2.4 – Limitations on Internal Controls*).

Examples of internal controls

Examples of some basic internal controls include:

- ensuring transactions have been processed in accordance with agency guidelines and policies
- proper authorisation of transactions
- effective segregation (separation) of duties
- data validation and reconciliation of:
    - general ledger control and suspense accounts (for example, on a monthly basis)
    - bank accounts
    - data inputs, including accuracy of numerical calculations, approvals and conformity with agency internal control processes
- access to financial and other confidential information is restricted (physical and electronic)
- access to assets (for example, cash and inventory) is limited to appropriately delegated officers, and
- physical assets are sighted and confirmed to be in working order.

Outcomes from the application of internal controls

Internal control procedures adopted by each agency should provide the following outcomes:

- Transactions
    - all appropriate transactions have been recorded
    - transaction amounts and other relevant details have been recorded
    - assets and liabilities have been recognised, correctly accounted for and reported
    - transactions are recorded in the correct accounting period, and
    - processed to the correct general ledger account.

- Period end account balances
  - the existence of assets and liabilities have been confirmed
  - the legal entitlement to assets has been confirmed
  - the obligation attaching to liabilities has been recorded, and
  - balances of assets and liabilities are correctly stated and fairly valued.
- Presentation and disclosure
  - only transactions related to an agency's operations are reported in agency accounts
  - assets, liabilities, revenues and expenses disclosed in the agency's accounts comply with applicable accounting standards
  - legislative, regulatory and legal obligations have been met, and
  - the agency's accounts present a true and fair view of the accounts for the period.

Documentation and review of internal controls

Section 8(5) of the Standard requires that the internal control structure developed and implemented by an agency must be included in the agency's financial management practice manual. Sections 15(1)(a)-(h) detail the systems that must be established to manage an agency's financial resources (refer *Information Sheet 3.14 – Financial Management Practice Manuals*).

Section 15(3) of the Standard states that accountable officers and statutory bodies must regularly review internal control systems to ensure they remain appropriate for managing the financial resources of the department or statutory body.

In order to comply with this requirement, agencies must undertake regular reviews to ensure their systems continue to be appropriate to their operations. The review should assess whether the system of internal controls is operating efficiently and effectively, and as documented in the agency's financial management practice manual. The manual should be updated to account for any changes that have been identified during this review (refer also to *Information Sheet 4.1 – Monitoring and Assessment of Internal Controls)*.

Related resources

- A Guide to Risk Management, Queensland Treasury
  http://www.treasury.qld.gov.au/office/knowledge/docs/risk-management-guide/index.shtml

Further information

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Information Sheet 2.4 – Limitations of Internal Controls

Introduction

An effective internal control system can only ever provide reasonable assurance that an agency's operating systems, financial controls, reporting and other agency processes are working effectively. No matter how well designed and operated, internal control systems cannot provide absolute assurance that agency objectives have been, and will continue to be, met.

Designing and implementing effective systems of internal control requires management to clearly understand agency objectives and its operating environment. Management also needs to recognise the inherent limitations in the design and application of systems that may impact on the ultimate delivery of agency objectives and services.

This Information Sheet is designed to highlight the inherent limitations in systems of internal controls and processes, and suggest actions to minimise potential internal control breakdowns.

Internal controls – potential limitations

Effective internal control systems reduce the probability of errors or omissions in agency operations. However, there can be limitations in the effectiveness of internal controls. These limitations may result from system breakdowns, human factors, resource constraints or lack of system flexibility.

For example, causes of breakdowns in internal control systems may include:

- a culture that does not reinforce the value of internal controls
- staff carelessness, poor judgement or lack of knowledge
- staff taking short-cuts instead of following procedures
- staff failing to recognise or act on unusual transactions
- internal control processes which do not reflect changed operating conditions, specific agency activities or potential new risks
- collusion by staff for personal gain or other motives
- controls failing to capture or flag unusual transactions, and
- controls and processes being viewed as a hindrance in the delivery of agency services so are overridden.

Actions to minimise internal control breakdowns might include:

- management displaying a culture of responsiveness to identified control weaknesses and encouraging reporting of internal control weaknesses
- training in internal control processes as part of staff induction, with regular follow up training
- easy access to user-friendly documented internal procedures
- having a financial management practice manual that reflects current practice of the agency

- regular review of potential risks that may significantly impact agency operations
- regular review and update of internal operational, financial and other processes
- establishment of effective internal audit and risk management functions
- assessment and adoption of audit recommendations, when appropriate, and
- design and implementation of an effective fraud, corruption and official misconduct mitigation strategy.

Smaller agencies and bodies

Smaller agencies and offices with few staff (for example, departmental regional offices) may have limited opportunities to apply internal control processes as rigorously as would be the case in larger offices (for example, less effective segregation of duties due to limited staff numbers).

In these instances, it is suggested that agency management consider the adoption of innovative measures to assist in mitigating the impact of potential limitations in agency internal control systems.

Examples of such measures may include:

- spot checks of various transactions
- regular reporting from agency management on specific operational matters and agreed key performance indicators, and
- for smaller statutory bodies, utilising independent board members to approve or review transactions.

Further information

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Information Sheet 2.5 – Chief Finance Officer

Introduction

The *Financial Accountability Act 2009* (the Act) requires each accountable officer to nominate an officer to assume the responsibilities of chief finance officer (CFO) for their department. The *Financial Accountability Regulation 2009* (the Regulation) prescribes the minimum qualifications that the departmental officer appointed to the CFO role must hold.

The nomination of an officer for this role does not change the functions and duties of accountable officers, as they remain responsible and accountable for the ultimate management and performance of the department.

Setting minimum qualifications for the CFO position recognises the wide range of responsibilities of the role, as well as acknowledging the technical and analytical skills that this role is expected to provide.

This Information Sheet outlines the requirements regarding the nomination, minimum responsibilities and qualifications of the CFO. While the role and minimum qualifications are mandatory for departments only, statutory bodies, particularly the larger ones, may benefit from implementing similar requirements.

Nomination of chief finance officer

It is not necessary for departments to employ an additional officer to fulfil the responsibilities of CFO. Rather, the legislation requires the accountable officer to nominate an officer to assume the responsibilities of the CFO role. Therefore, any appropriately qualified officer currently within the department could be nominated to undertake the function, for example the director of finance, director of corporate services or a finance manager.

Where a department has outsourced its financial administration function to another public sector agency or shares a corporate function with another department, an accountable officer must seek approval from the Treasurer to nominate a public service officer (with the appropriate qualifications) within the service provider agency or other department to act as the CFO. (Note that even the appointment of a temporary CFO from outside the department (but still a public service employee) will require the approval of the Treasurer.)

In this instance, the CFO will still have the same minimum responsibilities required under the Act, for example, certifying the department's annual financial statements. In these situations, it may be appropriate for three officers to sign off on the annual financial statements, that is, the accountable officer, the CFO and another officer within the department who has retained some of the financial responsibility for the agency.

Where there is a shared or external CFO arrangement in place, the accountable officer must ensure that the arrangement provides the appropriate level of assurance in relation to the operation of internal controls, risk management and governance for the department. It is anticipated that appropriate governance arrangements would include the CFO having direct, unrestricted access to the accountable officer; a service level agreement (or similar) in place; and a strong audit committee in operation. Key elements of the arrangement should also be documented, including:

- the appointment process (and any relieving arrangements)
- roles, responsibilities and accountabilities

- delegations from the accountable officer
- how the arrangements are to be financed
- lines of communication and reporting, and
- the need to review the effectiveness of the arrangement on a regular basis.

Line of reporting

It is the responsibility of the accountable officer to determine the line of reporting for the CFO. While it is not considered necessary that the CFO report directly to the accountable officer, mechanisms should be in place to ensure the accountable officer is appropriately advised of any emerging issues.

Where the CFO currently does not report directly to the accountable officer in the organisational hierarchy, regularly scheduled meetings should be held between the accountable officer and the CFO. Consideration should also be given to including the CFO in executive or management meetings to supplement the strategic and technical expertise of that group, or alternatively, the accountable officer and CFO could determine specific ‘direct-line’ reporting arrangements.

Where the CFO is not an officer of the department, the accountable officer and the CFO should establish effective communication and reporting processes.

Employment classification

Each accountable officer is to determine the appropriate employment classification for the officer undertaking the role of CFO. The employment classification may be within the Senior Executive Service (SES), Senior Officer (SO) or Professional Officer (PO) streams, subject to the process for creation of SES positions.

There may be instances where the officer currently assuming the role is employed within the Administrative Officer (AO) stream. As mandatory qualifications cannot be prescribed for officers within the AO stream, these positions will need to be transitioned to the PO stream.

Where the accountable officer determined that an officer designated as the CFO is required to transition from the AO stream to the PO stream, it is suggested that Public Service Commission be contacted to confirm the process to transition these officers.

Minimum responsibilities

The Act prescribes the minimum responsibilities that must be undertaken by the CFO. The mandated responsibilities are applicable to all departments in the Queensland public sector. If an accountable officer wishes the CFO to assume additional responsibilities, they are not limited by the provisions of the Act.

The following are the minimum responsibilities as outlined in the Act:

- financial resource management including the establishment, maintenance and review of financial internal controls
- budget management
- preparation of financial information including annual financial statements to facilitate the discharge of the department’s statutory reporting obligations
- provision of advice on the effectiveness of accounting and financial management information systems

and financial controls in meeting the department's requirements

- provision of advice concerning the financial implications of, and financial risks to, the department's current and projected services, and
- development of strategic options for the department's future financial management and capability.

Each of these elements is considered in detail below.

Financial resource management

The CFO is responsible for financial management and performance, including managing the departmental accounts, and providing regular advice to management on the financial performance and position of the department.

Where there are multiple business units within an agency, the CFO may not have direct day to day responsibility for the financial management and performance of those business units. However, the CFO cannot abrogate responsibility for these business units. The CFO may use, for example, letters of assurance or equivalent statements from those business units, to form an opinion on the effectiveness of business units' financial management and performance.

Where an agency utilises the services of a shared services provider, appropriate assessment methodologies should be employed by the CFO to form an opinion on the effectiveness of the services provided by the shared service provider. These may include receipt of a letter of comfort from the provider, the establishment of specific internal control processes and regular management reviews (refer to *Information Sheet 4.4 – Outsourced Arrangements*).

The CFO is also responsible for establishing, maintaining and reviewing the department's application of internal financial control systems prescribed by the *Financial and Performance Management Standard 2009* (the Standard). (Refer to *Information Sheet 4.3 – Regionalised Functions* for information on how the CFO could seek assurance on the performance of such functions.)

Budget management

The role of the CFO has two significant elements in budget management:

- The CFO must be involved in the development of the department's budget. In particular, the CFO should have an oversight and review role in the preparation of budget submissions to Treasury when seeking new funds, to ensure proposals have been accurately costed and developed.
- The CFO should, in consultation with other relevant areas of the agency, for example, cost centre managers, provide oversight of actual performance against the department's budget, and seek explanations for significant variances. This information should also be provided on a regular basis to agency management.

These elements of the CFO's role are not designed to remove responsibility from other officers within the department, for example, directors of individual branches of the department. The day-to-day responsibility for ensuring compliance with their budgets remains with these individual officers. However, the CFO may assume a broader agency-wide monitoring or review role where required.

Preparation of financial information

Every public sector agency has a statutory responsibility to prepare annual financial statements and have these audited. The CFO has the operational responsibility for preparing the department's financial statements. To ensure all prescribed requirements are complied with, it is expected that the CFO will keep abreast of changes to both the legislation and other prescribed requirements, including relevant Australian accounting standards.

As well as statutory reporting, the CFO is responsible for ensuring that management receives accurate financial information on a regular basis to support evidence-based operational and strategic decision making.

Advice on information systems and financial controls

Effective and efficient internal controls (both system and manual controls) are vital to any organisation. As the officer responsible for a department's financial management, reviews of internal controls should not be limited to current systems. The CFO should be involved in any decision regarding the identification and implementation of a new financial management system. The CFO should ensure an assessment is undertaken to determine the appropriateness of the new system for its intended purpose and that proper internal controls are built into the processes.

Financial controls include having staff suitably skilled to undertake the roles assigned to them. The CFO should regularly review the professional development needs of the department's financial staff and ensure that, where required, appropriate actions are undertaken.

Advice regarding financial implications and risks

The CFO should be involved with the assessment and negotiation of contracts and other major financial transactions, and provide appropriate advice to senior management on possible financial, reporting and regulatory implications of such transactions. The CFO should provide advice regarding specific matters arising as a result of large infrastructure projects being undertaken, for example, expensing or capitalising project costs, and future recurrent expenditure implications once the infrastructure is commissioned.

Strategic options

The CFO should be involved in monitoring the performance of the department, through analysing both financial and non-financial information, and recommending how the agency might improve its service delivery, for example, by identifying cost reductions or increasing volume or quality of service.

The CFO might also provide advice and be involved in decisions regarding financial implications of a department's planning process. For example, if the department's strategic planning process highlights the need for additional assets, then the CFO might provide advice covering the alternative funding sources for such assets, for example, through exploring leasing options or applying for additional funding from Treasury. The CFO may also have a role in the preparation of an appropriate business case to support the application.

The CFO also needs to be aware of emerging issues that may impact the finance area of the agency. For example, the introduction of a new accounting standard may necessitate process or system changes to comply with the new requirements.

Appropriate qualifications

Mandated minimum qualifications

As prescribed by section 4 of the Regulation, the officer assuming responsibilities of CFO must, as a minimum, hold a level of professional membership outlined below:

- CPA or above (CPA Australia), or
- CA or above (the Institute of Chartered Accountants in Australia), or

- MIPA or above (the Institute of Public Accountants), or
- qualifications from an overseas accounting body that are recognised by at least two of the aforementioned bodies as having equivalent requirements for membership.

To assist CFOs in maintaining their skills and knowledge, it is anticipated that departments will provide assistance and opportunities to attend appropriate professional development sessions on a regular basis to fulfil this obligation.

Transitional provisions

Section 7 of the Regulation details the transitional provisions applicable to incumbent staff appointed to CFO positions who, at 1 July 2009, are not appropriately qualified, as mandated by section 4.

The transitional provisions applicable to those incumbents are summarised below:

- Under section 7 (2)(a) incumbents who hold **appropriate qualifications** (for example, a university degree) for enrolment in a professional accounting body may remain in the position for a period of up to five years from the date of commencement of the Regulation to complete studies required to gain an appropriate qualification, as set out in section 4. The transitional period under section 7(2)(a) concluded on 1 July 2014. If the incumbent has not attained the necessary qualifications, they are no longer eligible to remain in the CFO role.
- Under section 7(2)(b) incumbents who are **not qualified** to enrol to study with a professional body may remain in the position for a period not exceeding 10 years from the date of commencement of the Regulation. This extended period is designed to allow the incumbent time to undertake the tertiary study required to be able to enrol and obtain one of the necessary qualifications specified in section 4. The transitional period under section 7(2)(b) concludes on 1 July 2019.

Note that these are the maximum transitional periods allowed and only apply to the first person delegated the prescribed responsibilities as at 1 July 2009. The accountable officer may nominate a shorter period for an officer to obtain the qualification.

The use of these transitional periods is conditional on the nominated officer enrolling in an appropriate course of study as soon as practicable and actively working towards obtaining the required qualifications.

In each instance, the accountable officer has responsibility to:

- ensure that the incumbent has the experience and standing to carry out the responsibilities of the position, and
- monitor the progress of the incumbent towards obtaining the appropriate formal qualifications.

At the conclusion of the transitional period, if the incumbent has not attained the appropriate qualifications, they will not be eligible to remain in the CFO role.

Any subsequent appointments to the position of CFO will require appointees to hold qualifications mandated under the Regulation.

Experience and standing

The Act states that “appropriately qualified” includes “having the qualifications, experience or standing appropriate for carrying out the responsibilities”. In addition to the mandated qualifications, the accountable officer should consider the “experience” and “standing” of an officer to be appointed to the position of CFO. Although there are no minimum requirements, this should include a consideration of:

- the classification level of the appointment and length of experience in related roles and functions
- the variety and breadth of positions, including the types of technical roles held (for example, financial accounting, management accounting, tax, policy, etc.), and
- the skills and abilities of the individual including:
    - technical skills, including demonstrated commitment to continuing professional development
    - interpersonal and communication skills
    - analytical and research skills
    - leadership and management skills
    - ability to think and plan strategically, and
    - good character, including integrity, honesty and professionalism.

Assistance

It is a matter for each accountable officer, within the context of their departmental policies, to determine the assistance available to the officer in the CFO role, for example:

- assistance in obtaining the professional qualifications (for example, course fees, exam leave)
- payment of annual subscriptions to the professional bodies, and
- fees and time to attend courses, seminars, etc. to maintain the level of continuing professional development required by the professional bodies.

Leave of absence

Where the CFO is taking leave or is otherwise absent during the year, it will be the responsibility of the accountable officer to determine if it is necessary to have an employee in the department performing the minimum responsibilities of the CFO, as defined in section 77(1)(b) of the Act, during this time.

The minimum responsibilities of the CFO are strategic in nature. Therefore, the accountable officer may not need an employee to undertake the minimum responsibilities on a daily basis.

Options the accountable officer might consider to fulfil these responsibilities during the period of the CFO's absence include:

- To appoint an employee to act as the CFO who can continue to perform the minimum responsibilities. The employee nominated to act as the CFO must be appropriately qualified as defined in section 77(5) of the Act (section 4 of the Regulation), and be officially nominated by the accountable officer to act as the CFO during the period that the CFO is absent.
- If the department does not have any employees with the requisite qualifications and experience, the accountable officer may consider using a public sector wide expression of interest process.
- To appoint an employee to perform the day-to-day financial administration processes and functions, but who does not act in the capacity of the CFO and perform the minimum responsibilities. In this instance, the employee does not need to have the mandatory qualifications. The absent CFO will retain the delegated minimum responsibilities and will need to have processes in place to ensure the end of year statement can be signed with assurance. No person will be able to assume the minimum

responsibilities in the CFO's absence.

In considering whether to delegate the minimum responsibilities of the CFO to another person for a temporary period when the CFO is absent, the accountable officer may need to consider:

- the length of time the CFO is away
- whether any reporting that requires CFO sign off is due, including the preparation of the annual financial statements and related statements to be provided to the accountable officer, and
- critical issues impacting on the organisation at the time that might require CFO input (for example, financial risk management issues).

Note: The transitional provisions cannot be used for any employee acting as the CFO while the CFO is on leave.

Statement by CFO

Section 77 of the Act requires the CFO to give the accountable officer a statement about whether the financial controls of the department are operating efficiently, effectively and economically (refer to *Information Sheet 4.2 – Statement by Chief Finance Officer*).

Where a CFO terminates employment during a financial year, the outgoing CFO should provide a statement to the accountable officer on the efficiency, effectiveness and economy of the financial controls in operation to the date of termination. The statement should also be made available to the incoming CFO.

Application to statutory bodies

The nomination of, and delegation of various responsibilities to, a CFO is legislated for departments only. A statutory body, however, may choose to create the role of CFO, for example, in response to the financial, administrative and reporting complexities of the body's operations. The body may also determine minimum qualifications that are required for appointment to the position of CFO, and reference to the Regulation may assist in establishing the appropriate qualifications for the position. Statutory bodies should also encourage CFOs to attend relevant professional development sessions, as deemed appropriate.

Related resources

- Chief Finance Officer: Role and Responsibilities, Good Practice Guide 2004:1, Auditor-General Victoria www.audit.vic.gov.au

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.

Information Sheet 2.6 – Head of Internal Audit

Introduction

The *Financial Accountability Act 2009* (the Act) requires each accountable officer to nominate a person to assume the responsibilities of head of internal audit (HIA) for their department. The *Financial Accountability Regulation 2009* (the Regulation) prescribes the minimum qualifications that the person assuming the responsibilities of HIA must hold.

This Information Sheet outlines the requirements regarding the nomination, minimum responsibilities and qualifications of the HIA. There is also consideration of the application of these policies to smaller agencies and processes required to manage the relationship with an external HIA.

Nomination of head of internal audit

Under the Act, the accountable officer has the flexibility to nominate either an appropriately qualified departmental employee or other person, whether internal or external to the public sector, to assume the role of HIA.

It is not necessary for departments to employ an additional person to fulfil the responsibilities of HIA, or for a person to actually have the title of 'HIA'. Rather, the legislation requires the accountable officer to nominate a person to assume the responsibilities of the role. Therefore, any appropriate person, with the mandated qualifications, could be nominated to assume the role. For example, the manager of the internal audit function may be considered the appropriate person. However, the accountable officer is not limited to nominating an internal auditor to the role if it is considered another qualified person would discharge the duties satisfactorily.

Under the Act, an accountable officer may nominate one of the following persons to undertake the role of HIA:

- a departmental employee
- an employee from another public sector agency (for example, when departments are sharing an internal audit function), or
- a non-public sector person (for example, when a department has outsourced its internal audit function, the partner of the external firm may be nominated as HIA).

When a person from another department or agency or a person external to the public sector is nominated to the HIA role, an accountable officer must seek approval from the Treasurer. Note that even the appointment of a temporary HIA from outside the department (whether or not a public service employee) will require the approval of the Treasurer.

Irrespective of who is nominated to the HIA role, the employee or person must undertake the minimum responsibilities as outlined in the Act and the accountable officer will need to ensure that the arrangement provides the appropriate level of assurance in relation to the operation of internal controls, risk management and governance for the department. It is anticipated that appropriate governance arrangements would include the HIA having direct, unrestricted access to the accountable officer and a strong audit committee in operation. Where a person from outside the department is undertaking the role, it is expected that a service level agreement (or similar) will be in place. Key elements of the arrangement should also be documented, including:

- the appointment process (and any relieving arrangements)
- roles, responsibilities and accountabilities
- delegations from the accountable officer
- how the arrangements are to be financed
- lines of communication and reporting, and
- the need to review the effectiveness of the arrangement on a regular basis.

If the internal audit function is outsourced to the private sector, the accountable officer is still able to nominate an officer within the department to assume the HIA responsibilities where there is a suitably qualified employee with appropriate skills and seniority within the department.

Line of reporting and communication

Under section 32 of the *Financial and Performance Management Standard 2009* (the Standard), reports arising from the internal audit functions for departments are to be provided to the accountable officer and the audit committee, and in the case of statutory bodies, to the CEO and board, and if established, the audit committee.

It is the responsibility of the accountable officer to ensure that effective lines of communication exist between the accountable officer, the audit committee and the HIA, whether the HIA is an employee of the accountable officer's department, or an appropriately qualified external person.

An external HIA may not have the day to day knowledge of the department. In this instance, the accountable officer must ensure the external HIA understands the department's financial and operating systems, including systems of internal control, the department's risk management processes and risk appetite. Effective communication will assist the HIA to add value by identifying deficiencies and improvements in processes and systems. The HIA must have regular and open communication with the accountable officer, the departmental leadership team and the audit committee.

Internal HIA - Employment classification

Each accountable officer is to determine the appropriate employment classification for the officer undertaking the role of HIA. The employment classification may be within the Senior Executive (SES), Senior Officer (SO) or Professional Officer (PO) streams, subject to the process for creation of SES positions.

There may be instances where the officer currently assuming the role is employed within the Administrative Officer (AO) stream. As mandatory qualifications cannot be prescribed for officers within the AO stream, these positions will need to be transitioned to the PO stream.

Where the accountable officer determines that an officer designated as the HIA is required to transition from the AO stream to the PO stream, it is suggested that Public Service Commission be contacted to confirm the process to transition these officers to the PO stream.

Minimum responsibilities

The Act prescribes the minimum responsibilities which must be undertaken by the HIA, irrespective of whether the HIA is an internal employee of the department or is an external non-departmental employee. The mandated responsibilities are applicable to all departments in the Queensland public sector. If an accountable officer wishes the HIA to assume additional responsibilities, they are not limited by the provisions of the Act.

The following are the minimum responsibilities as outlined in the Act:

- provision of assessment and evaluation of the effectiveness and efficiency of departmental financial and operation systems, reporting processes and activities
- provision of assistance in risk management and identifying deficiencies in risk management.

Each of these elements is discussed in further detail below.

If a person external to the department is appointed as HIA, the accountable officer should ensure there is a contract of engagement (or similar agreement) outlining the services to be provided by the HIA. This agreement must include the legislated minimum responsibilities to be undertaken by the external HIA and how compliance with these requirements will be demonstrated (refer section below on 'Discharge of Minimum Responsibilities'). This agreement should be updated, as required, to incorporate changes or additional specific areas where the accountable officer may be seeking assurances from the HIA.

Systems, reporting processes and activities

The internal audit function should be assessing and providing regular advice to senior management in relation to issues such as how well the agency is:

- managing its exposure to risk and fraud in an effective and efficient manner
- delivering its services efficiently and effectively so as to obtain value for money
- maximising its performance in delivery of agency objectives and services
- reporting its financial and non-financial performance in a relevant, reliable and timely manner
- applying and complying with the requirements of the Act, the Standard, applicable Australian accounting standards and other authoritative pronouncements and prescribed requirements
- ensuring the integrity and consistency of the agency's corporate culture relative to ethical conduct and probity, including in relation to its tendering, contracting and other procurement processes, and
- ensuring that its assets, liabilities and contingencies are managed competently and protected against loss or other negative consequences.

The activities of internal audit should not be limited to appraisals of the accounting systems and should extend to identifying deficiencies in other operating systems and processes. The ability of the HIA to identify and provide suggested solutions in a timely manner to the accountable officer on the deficiencies in the agency's internal controls and potential risks should add value and improve the department's accountability and performance.

Risk management

All agencies have a responsibility under the Standard to implement a risk management system to protect the agency and the State from potential risks and unacceptable costs or losses.

The HIA may be required to assist the agency in the identification and evaluation of significant risk exposures, particularly in relation to:

- the reliability and integrity of financial and non-financial information
- effectiveness and efficiency of operations
- safeguarding of assets, and
- compliance with laws, regulations and contracts.

If, as a result of the processes employed to identify and evaluate agency risk exposures, the HIA forms an opinion that management may have assumed unacceptable levels of risk, the HIA should report and discuss the matter with senior agency management. Where, in the opinion of the HIA, the issue is not resolved satisfactorily with senior management, the HIA should take the matter to the audit committee (or in the case of a statutory body, to the board). Liaison with the department's risk management team is critical.

Discharge of minimum responsibilities

Given the Act contains minimum responsibilities, a department's HIA should consider how compliance with the requirements will be demonstrated.

Such demonstration may vary depending on the department, however, one approach may be the preparation and certification of an HIA statement, similar to that prepared by the chief finance officer (CFO). For additional information about the CFO statement, refer to *Information Sheet 4.2 – Statement by Chief Finance Officer*.

It is acknowledged that the Standard requires a report to be prepared by the internal audit function at the conclusion of an audit of an area. However, such a report, or series of reports, will not necessarily directly cover the minimum responsibilities of the Act.

An HIA statement, in contrast, could be prepared by the HIA and directly address the minimum responsibilities in the Act, as well as coverage of specific issues required by the accountable officer. For example, section 29(3) of the Standard requires departments (and statutory bodies with an internal audit function) to develop and implement systems for ensuring the internal audit function operates efficiently, effectively and economically. The accountable officer may seek assurance from the HIA (via an HIA statement) that this has occurred. This may also be relevant where the internal audit function has been outsourced.

If an HIA statement is prepared, it could be provided to the accountable officer and the audit committee; that is, the same reporting requirements as for other audit reports. Whether the CFO should get a copy of the HIA statement would be a decision for the accountable officer.

Minimum qualifications

Mandated minimum qualifications

As prescribed by the Regulation, the person assuming the responsibilities of HIA must, as a minimum, hold a level of professional membership outlined below:

- professional membership or above (Institute of Internal Auditors in Australia) – noting that the

Professional Member carries the post-nominal designation PMIIA, which stands for Professional Member, Institute of Internal Auditors – Australia, or CPA or above (CPA Australia), or

- CA or above (Institute of Chartered Accountants in Australia), or
- MIPA or above (Institute of Public Accountants), or
- qualifications from an overseas accounting body that are recognised by at least two of the above bodies as having equivalent membership.

A number of internal audit roles require expertise in areas other than accounting, such as engineering, IT, project management, general management, and finance. These specialist skills are required to effectively perform internal audit functions in non-financial areas of agency operations. However, section 78(1)(b)(i) of the Act provides that the accountable officer must delegate to the HIA responsibility for the “provision of assessment and evaluation of the effectiveness and efficiency of departmental financial and operation systems, reporting processes and activities”, and it is suggested that reasonable accounting skills will be required if these obligations are to be met, and some additional study may be required.

Transitional period

Section 8 of the Regulation details the transitional provisions applicable to incumbent staff appointed to HIA positions who, at 1 July 2009, were not appropriately qualified, as mandated by section 5.

The transitional period under section 8 concluded on 1 July 2014. If the incumbent has not attained the necessary qualifications, they are not eligible to remain in the HIA role.

Any subsequent appointments to the position of HIA will require appointees to hold qualifications mandated under the Regulation.

Section 9 of the Regulation details the transitional provision applicable to the person nominated as HIA who, at 1 July 2014, is not appropriately qualified under section 5(a) of the Regulation i.e. has not attained a qualification as a professional member of The Institute of Internal Auditors Australia. Under section 9, this person may continue as HIA for the department or may be nominated as HIA for another department. Such a person would be working towards attaining the qualification as a Professional Member of The Institute of Internal Auditors Australia.

Experience and standing

The Act states that “appropriately qualified” includes “having the qualifications, experience or standing appropriate for carrying out the responsibilities”. In addition to the mandated qualifications in section 5 of the Regulation, the accountable officer should consider the “experience” and “standing” of the person to be appointed to the position of HIA.

Although there are no minimum requirements this could include a consideration of:

- the classification level of the appointment and length of experience in related roles and functions
- the seniority and experience of the person, including, for a person external to the department, whether they are a partner of an external firm
- the variety and breadth of positions, including the types of technical roles appropriate to specific agency requirements (for example financial accounting, management accounting, tax, engineering, information technology, project management), and
- the skills and abilities of the individual including:

- technical skills, including demonstrated commitment to continuing professional development
- interpersonal and communication skills
- analytical and research skills
- leadership and management skills
- ability to think and plan strategically, and
- good character, including integrity, honesty and professionalism.

Assistance (departmental officers only)

It is a matter for each accountable officer to determine, within the context of their departmental policies, the assistance available to the officer in the HIA role, for example:

- assistance in obtaining the professional qualifications required (for example, course fees and leave for exams)
- payment of annual subscriptions to the professional bodies, and
- fees and time to attend courses, seminars, etc to maintain the level of continuing professional development required by the professional bodies.

Leave of absence

Where the HIA is taking leave or is otherwise absent during the year, it will be the responsibility of the accountable officer to determine if it is necessary to have a person performing the minimum responsibilities of the HIA, as defined in section 78(1)(b) of the Act, during this time.

The minimum responsibilities of the HIA are strategic in nature. Therefore, the accountable officer may not need an employee to undertake the minimum responsibilities on a daily basis.

Options the accountable officer might consider to fulfil these responsibilities during the period of the HIA's absence include:

- To appoint an employee to act as the HIA who can continue to perform the minimum responsibilities. The employee nominated to act as the HIA must be appropriately qualified as defined in section 78(3) of the Act (section 5 of the Regulation), and be officially nominated by the accountable officer to act as the HIA during the period that the HIA is absent.
  - If the department does not have any employees with the requisite qualifications and experience, the accountable officer may consider using a public sector wide expression of interest process.
- To appoint a person, either an employee or person from the external firm providing the internal audit function, to perform the day-to-day internal audit processes and functions, but who does not act in the capacity of the HIA and perform the minimum responsibilities. In this instance, the employee does not need to have the mandatory qualifications. The absent HIA will retain the delegated minimum responsibilities. No person will be able to assume the minimum responsibilities in the HIA's absence.
- Where there is an external HIA who is an officer from an external firm providing the internal audit function, another officer from the external firm could be appointed to act as HIA to continue to perform the minimum responsibilities. This person nominated to act as HIA for the temporary period must be appropriately qualified as defined in section 78(3) of the Act and section 5 of the Regulation.

In considering whether to delegate the minimum responsibilities of the HIA to another person for a temporary period when the HIA is absent, the accountable officer may need to consider:

- the length of time the HIA is away
- whether any reporting that requires HIA sign off is due, and
- critical issues impacting on the organisation at the time that might require HIA input (for example, risk management issues).

Note: The transitional provisions cannot be used for any employee or person acting as the HIA while the HIA is on leave.

Alternatives to appointing an internal HIA

Irrespective of the size or corporate arrangements of a department, an accountable officer must nominate a person to assume the responsibilities of HIA.

As outlined previously in the Information Sheet, if the department has limited staff, the accountable officer has the option of nominating a public sector employee from another department to be the HIA, another employee of the State (for example, an employee of a statutory body that represents the State) or a person external to the public sector, such as a partner from an external firm. Note, however, the Treasurer's approval is required if a person outside the department is nominated to be the HIA.

Another option, whilst not ideal, may be to nominate a person who is on the department's audit committee. To maintain a level of independence, the audit committee member/HIA would need to declare a conflict of interest when internal audit reports are discussed by the audit committee.

As the accountable officer is able to nominate a person external to the department to assume the HIA role, it is not considered to be an ideal solution to nominate the same person to be the CFO as well as the HIA. If a department currently has the same officer undertaking both roles, the accountable officer should consider alternative options that are available.

Application to statutory bodies

The nomination of, and delegation of various responsibilities to, an HIA is legislated for departments only. A statutory body, however, may choose to create the role of HIA, for example, in response, to the financial, administrative and reporting complexities of the body's operations. The body may also determine minimum qualifications that are required for appointment to the position of HIA and reference to the Regulation may assist in establishing the appropriate qualifications for the position. A statutory body should also send an employee appointed as HIA to relevant professional development sessions, as deemed appropriate.

Related resources

- Audit Committee Guidelines - Improving Accountability and Performance, Queensland Treasury
  http://www.treasury.qld.gov.au/office/knowledge/docs/improving-performance/index.shtml
- Institute of Internal Auditors, Australia
  http://www.iia.org.au/Home.aspx

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.

Information Sheet 2.7 – Management Committees

Introduction

Management committees are established to assist the accountable officer or statutory body in the management of agency operations through the provision of advice and direction appropriate to the nature, range and scope of an agency's activities. Through the assistance and advice provided by the various committees, management will be better equipped to deliver agency services in the most efficient, effective and economical manner.

This Information Sheet is intended to assist agencies in the establishment and operation of committees to assist the accountable officer or statutory body in the management of agency operations.

Management committees

The need for management committees will be determined by the size and complexity of an agency's operations and services, or by specific needs identified within the agency. In the case of smaller agencies, management committees may be tasked with multiple responsibilities (for example, audit and risk management).

Appointments to committees may be made in response to the need for professional, scientific or technical expertise that is sought by Government, with the appointee remunerated accordingly. In such instances, reference should be made to *Remuneration procedures for part-time Chairs and Members of Queensland Government Bodies.*

Committees may be mandated by legislation, established on a permanent or temporary basis, or created to deal with agency specific issues or concerns. Examples include:

- audit committee
- business continuity
- ethical standards
- executive management committees
- finance and budget committee
- information technology review and development
- human resources (including occupational health and safety and workplace relations)
- operational specific committees, such as:
  - investment management
  - disaster and security (state and national)
  - community service / consultation, and
- risk management committee.

Operation of management committees

Agency management committees should be formed and run in a professional and business-like manner, through:

- determination of the committee's terms of reference
- appointing appropriately skilled/knowledgeable committee members
- designating a committee chairperson
- establishing committee meeting guidelines, and
- preparing meeting agendas, minutes, reviewing agency operational and performance reports, and preparing regular reports to the accountable officer or statutory body.

Recommendations from management committees

Depending on the size, complexity or specific need, agencies may elect to establish an executive management committee that oversees and directs various agency committees, or establish a direct reporting link between the accountable officer or statutory body and agency committees.

Agency committees should report on a regular basis to the accountable officer, statutory body or executive management committee on specific operational matters that may have arisen during the course of agency operations. Where, in a committee's opinion, any matter is considered significant or indicative of an unfavourable trend developing within agency operations, it is suggested that the accountable officer or statutory body be immediately informed, as well as the executive management committee (if appropriate).

Related resources

- Audit Committee Guidelines - Improving Accountability and Performance, Queensland Treasury http://www.treasury.qld.gov.au/office/knowledge/docs/improving-performance/index.shtml
- Remuneration procedures for part-time Chairs and Members of Queensland Government Bodies, Department of the Premier and Cabinet http://www.premiers.qld.gov.au/publications/categories/policies-and-codes/handbooks/welcome-aboard/remuneration/procedures.aspx
- A Guide to Risk Management, Queensland Treasury http://www.treasury.qld.gov.au/office/knowledge/docs/risk-management-guide/index.shtml
- Welcome Aboard: A Guide for Members of Queensland Government Boards, Committees and Statutory Bodies, Department of the Premier and Cabinet http://www.premiers.qld.gov.au/publications/categories/policies-and-codes/handbooks.aspx

(Note: Some of the general concepts outlined in the above documents may also be applicable to other management committees.)

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.

Information Sheet 2.8 – External Audit

Introduction

Section 6 of the *Auditor-General Act 2009* (the A-G Act) establishes the position of the Queensland Auditor-General and the Queensland Audit Office (QAO). QAO undertakes independent audits of agencies' financial records and financial statements, and is also empowered to undertake performance audits, collaborative audits and follow-the-dollar audits.

Information Sheet 3.13 – Performance Management and Assessment provides information about the Auditor-General's performance audit mandate.

This Information Sheet is intended to assist agencies to meet their obligations in regard to external audit, and focuses on the Queensland Audit Office's financial compliance mandate. Section 62(1) of the *Financial Accountability Act 2009* (the Act) states that accountable officers and statutory bodies must, in the way and within the time stated in a financial and performance management standard, have the annual financial statements of their agency audited by the Auditor-General.

The primary objective of financial audits is to provide independent assurance to Parliament and the community that the information contained in the financial statements is, in all material respects:

- free of misstatement, whether due to fraud or error; and
- presented fairly in accordance with applicable accounting standards and legislative requirements.

Financial audits may also include an assessment of:

- the probity and propriety of matters associated with the management of public sector entities
- acts or omissions that have given rise to a waste of public resources, or
- compliance with relevant Acts, Regulations, government policies and other prescribed requirements.

Audit mandate

Section 30(1) of the A-G Act states that the Auditor-General must audit, each financial year:

- the Consolidated Fund, and
- all public sector entities (unless exempted under section 30A, 31 or 32 of the A-G Act).

Section 37 of the A-G Act provides that the Auditor-General is entitled to conduct audits in the way the Auditor-General deems appropriate. Sections 37A to 42A identify the objectives for the specific types of audits that the Auditor-General may conduct in discharging the mandate.

Under s.36A of the A-G Act, the Auditor-General may undertake an audit of a matter relating to property, including money, provided by a public sector entity to a non-public sector entity (known as a 'follow-the-dollar' audit). The objective of such an audit includes determining whether or not the property was applied economically, efficiently and effectively and for the purposes for which it was provided. These audits are undertaken at the discretion of the Auditor-General where it is considered to be in the public interest. This could include an audit of grants provided by a government department to a non-government organisation.

Audits are performed by authorised auditors either from QAO or external audit firms that have been contracted by QAO to perform specific audit functions.

The Auditor-General conducts all audits in accordance with the Auditor-General of Queensland Auditing Standards. These standards require audits to be conducted in accordance with the requirements of standards issued by the Australian Auditing and Assurance Standards Board to the extent these are not inconsistent with the requirements of the A-G Act or other applicable legislation.

Management and staff responsibilities

All agency staff must assist the auditors in the performance of the audit, with specific responsibilities detailed in the A-G Act.

In particular, sections 46 to 48 define management and staff obligations in relation to authorised auditors in the performance of the audit and include:

- providing full and free access to documents and property
- allowing entry, and
- appearing and providing evidence when requested.

Penalties apply for breaches of sections 46 to 48 of the A-G Act. Sections 50 to 52 of the A-G Act also outline penalties that may apply to staff for providing false or misleading information, obstructing an auditor during the audit, or impersonating an auditor.

Relationship between internal and external audit functions

Cooperation between an agency's internal audit function and external audit provides best value for money and helps ensure a thorough review of agency operations and financial results (refer to *Information Sheet 2.9 – Internal Audit*).

External audit recommendations

The external audit may highlight possible deficiencies in departmental or statutory body operations that should be referred to the agency's management. Each accountable officer or statutory body has the discretion to accept, or reject, recommendations made by external audit. Additionally, the *Financial and Performance Management Standard 2009* requires statutory bodies to consider the Auditor-General's report at the statutory body's first ordinary meeting after the financial statements have been certified.

Where recommendations are not accepted, the agency should clearly document reasons for its decision not to adopt the external audit recommendations. This action provides transparency and substantiates its decision, as well as providing documentation that can be made available in the event of a Ministerial or Parliamentary enquiry.

Where recommendations considered 'significant' are not adopted and remain unresolved, the Auditor-General may include details in a Report to Parliament (refer *Information Sheet 4.5 – Audit Findings and Resolution*).

There may be instances where the Auditor-General includes general comments in a Report to Parliament, without attributing them to particular agencies. Alternatively, the Auditor-General may have targeted only particular agencies to undertake a sector-wide audit. In these situations, all agencies are expected to consider the issues reported, consider if they are appropriate to their agency, and take appropriate action.

Related resources

- Auditor-General of Queensland Auditing Standards, Queensland Audit Office
- Financial Audit Practice Statement, Queensland Audit Office
- Performance Audit Practice Statement, Queensland Audit Office
  www.qao.qld.gov.au

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.

Information Sheet 2.9 – Internal Audit

Introduction

The Institute of Internal Auditors Australia defines internal audit as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

An effective internal audit process can assist accountable officers and statutory bodies with ensuring that the established processes, systems and controls allow for the effective, efficient and economical use of the agency’s resources. In the majority of agencies, this will involve assessing both the financial and non-financial performance of the agency.

This Information Sheet is intended to assist agencies in understanding and meeting their obligations with regard to their internal audit functions.

Legislation

The *Financial Accountability Act 2009* (the Act) and the *Financial and Performance Management Standard 2009* (the Standard) contain specific provisions relating to the internal audit function.

The Standard specifies that each department must establish an internal audit function. A statutory body must establish an internal audit function if directed to do so by its Minister, or if considered appropriate by the statutory body. All statutory bodies should consider the benefits of establishing an internal audit function.

Section 78 of the Act provides, for departments, that the accountable officer must nominate an appropriately qualified person to be responsible for the internal audit activities of the agency (the head of internal audit).

The head of internal audit role can be undertaken by an appropriately qualified employee of the department, another public service employee or a non-departmental employee such as the partner where the internal audit function has been outsourced to an external audit firm.

Responsibilities for this role are broadly defined as:

- assessment and evaluation of the effectiveness and efficiency of departmental financial and operational systems, reporting processes and activities, and
- assistance in risk management and identifying potential risks/deficiencies in agency operations.

Where a statutory body has elected to establish an internal audit function, it may also consider establishing the position of head of internal audit (refer to *Information Sheet 2.6 – Head of Internal Audit)*.

The Standard contains mandatory requirements applicable to the internal audit function relating to:

- the development of an internal audit charter
- planning the audit program
- reporting of audit issues, and
- the relationship with external audit.

Characteristics of the internal audit function

Characteristics of the internal audit role should include:

- independence from operational functions and processes
- access to all activities and processes within the agency
- access to the agency audit committee
- direct line of reporting to the accountable officer or statutory body, and
- not being primarily responsible for the development of internal control processes or systems, but being consulted prior to implementing or significantly changing these.

Through the scope of work defined by the audit plan, this independent review of the agency's systems and processes should allow the accountable officer or statutory body to assess the agency's performance. The accountable officer or statutory body will need to consider any operational weaknesses that have been identified and, if appropriate, take remedial action to improve those processes and controls.

Internal audit charter

The internal audit function must operate under an internal audit charter. The charter must be consistent with generally accepted auditing and ethical standards, must be approved by the accountable officer or statutory body and should be reviewed annually.

The charter defines the purpose, authorities and responsibilities of the internal audit function. It should be available to all agency management and staff, and be presented in such a way that management and staff have a clear understanding of the objectives of the function.

The charter should contain specific requirements applicable to the agency's operations including:

- the scope and purpose of the internal audit function
- organisational relationships, including, where appropriate, the relationship with controlled entities
- the independence of the function
- ancillary roles of the function
- competence and standards
- establishing a documented quality assurance and improvement program for the internal audit function
- conduct of audit work
- audit planning
- reporting directly to the accountable officer or statutory body
- access to the audit committee (or similar)
- shared internal audit staff and contracting for internal auditing by persons other than officers of the agency

- confidentiality
- reporting and communication with the external auditor
- overview by the audit committee of the adequacy of the charter and performance of the internal audit function relative to the annual audit plan, and
- any other issues that may be required by the International Professional Practices Framework.

Reference should also be made to Queensland Treasury's *Audit Committee Guidelines – Improving Accountability and Performance*.

Planning and scope of the internal audit function

Section 31 of the Standard requires that planning by the internal audit function must be appropriate to the size and functions of the department or statutory body, and the internal audit function's strategic and annual audit plans must be documented and approved by the department's accountable officer or statutory body.

Risk should be assessed during the planning phase of the internal audit, and in assessing such risk, professional standards should be applied. In developing its plans, internal audit should consider the risk profile of the agency, including financial, operational and strategic risks.

The internal audit function may include functions that review:

- compliance (for example, legislation, accounting standards, policies, plans, processes and audit of specific activities)
- transaction (check system of internal controls)
- technology (review of information and communication technology)
- performance (evaluation of agency's performance)
- operations (evaluation of specific areas of agency functions), and
- resource use (evaluating optimal use of agency's assets).

Internal audit outcomes and management responsibilities

Internal audit should:

- provide the accountable officer or statutory body with reasonable assurance that the agency is operating efficiently and effectively
- provide the agency with details of identified internal control weaknesses, non-compliance with regulations or guidelines, and other instances where agency processes could be improved
- provide external audit with access to internal audit work papers to assist external audit with its review of the agency's reported results, and
- report audit results to the agency's audit committee with recommended enhancements to internal processes where weaknesses or omissions have been identified.

Section 32 of the Standard requires the internal audit function to give the person in charge of the audited area a copy of the proposed report, and include any comments from that person in the report. The Standard also provides that the internal audit function must give the final report to:

- for a department – the accountable officer and audit committee, and
- for a statutory body, to the statutory body and, if established, the audit committee.

The role of the head of internal audit (HIA) in the reporting process must be determined by each agency, and may vary depending on the person nominated to the HIA role. Additional information about the HIA role is provided in *Information Sheet 2.6 – Head of Internal Audit*.

Under section 33 of the Standard, each accountable officer or statutory body must consider the contents of the report and take action necessary to address any issues raised.

The accountable officer, or statutory body, therefore has a responsibility to review the issues documented in the report, and implement appropriate actions to address the issues noted. Similarly, the audit committee should assess the nature of the issues contained in the report, and advise the accountable officer or statutory body of their recommendations (refer to *Information Sheet 4.5 – Audit Findings and Resolution)*.

The relationship between internal and external audit functions

While responsibility for issuing the audit certificate rests with the Auditor-General (or delegate), cooperation between internal and external audit ensures a thorough review of the management and system processes that comprise each agency's operations.

Prior to the commencement of the audit, both groups should meet and understand:

- respective responsibilities as required under applicable legislation
- lines of communication
- internal audit scope, plans and timetables
- specific areas that are to be reviewed, and
- the extent to which internal audit work papers/processes may be used by external audit.

External auditors may seek to rely on work undertaken by internal audit to avoid duplication of effort and to achieve a more efficient audit process. For example, the internal audit plan may include confirmation of the existence of physical assets, attendance at stocktakes, or verification of certain public sector-specific disclosures, and the external auditors may seek to rely on this work.

Such reliance, however, will only occur where external audit is satisfied that the work of internal audit is adequate for the purpose of the external audit, in accordance with Australian Auditing Standard 610 *Using the Work of Internal Auditors*.

Shared and outsourced internal audit functions

Agencies may utilise an outsourced or shared internal audit function. Agencies adopting either approach should consider:

- appointment of a senior agency manager as the officer responsible for the outsourced internal audit services provided to the agency (refer Information Sheet 2.6 – Head of Internal Audit). Where the HIA role is also outsourced, a senior officer within the department should be responsible for monitoring the engagement of the outsourced internal audit function
- the host agency's ability to adequately resource other internal audits, and
- potential conflict of interest in internal audit functions between host and other agency.

To overcome potential issues of this nature:

- a Memorandum of Understanding should be signed which clearly outlines the expectations of both parties
- where agencies are sharing an internal audit function, it may be appropriate to utilise an agency outside the Ministerial portfolio
- where the internal audit function is provided by an external firm, annual conflict of interest attestations should be provided by internal audit staff (with any conflicts of interest reported to the audit committee), and
- where the internal audit function is provided by an external firm, confidentiality attestations should be provided by internal audit staff.

Additional processes for the agency to consider when utilising an outsourced internal audit unit is contained in *Information Sheet 4.4 – Outsourced Arrangements*.

Related resources

- Audit Committee Guidelines - Improving Accountability and Performance, Queensland Treasury
  http://www.treasury.qld.gov.au/office/knowledge/docs/improving-performance/index.shtml
- Australian Auditing Assurance Standards
  http://www.auasb.gov.au
- Institute of Internal Auditors – Australia (note: the International Professional Practices Framework (IPPF) is only available to professional members of the IIA)
  http://www.iia.org.au

Further information

If you have any questions concerning the Financial Accountability Handbook, please contact your Treasury Analyst.

Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.

Information Sheet 2.10 – Planning

Introduction

Planning is a cyclical process through which an agency determines a desired future position in the light of policy objectives and environmental factors, and identifies the means by which this is to be achieved. Planning is an integral part of the Queensland Government's performance management framework.

This Information Sheet is designed to assist agencies in meeting their legislative obligations and other reporting requirements in the preparation of strategic, operational and specific purpose plans.

Legislative requirements

Section 61(e) of the *Financial Accountability Act 2009* (the Act) prescribes that one of the functions of each accountable officer and statutory body is "to undertake planning and budgeting… appropriate to the size of the department or statutory body".

Further, section 9 of the *Financial and Performance Management Standard 2009* (the Standard) prescribes that each accountable officer and statutory body must develop a strategic plan and operational plan for their agency.

Section 9(4) of the Standard requires agencies to comply with the document *Agency Planning Requirements* published by the Department of the Premier and Cabinet. The document details mandatory and discretional planning requirements for Queensland Government agencies.

Plans mandated under the Standard

As outlined above, section 9 of the Standard requires the preparation of strategic and operational plans.

Strategic plans are designed to:

- align agency service delivery to the achievement of the Government's objectives for the community, and its fiscal objectives
- provide a foundation for budget submissions (there should be alignment between strategic plans, budget submissions and service delivery statements, where prepared)
- provide a foundation for performance indicators/targets, and
- articulate an agency's direction to staff, clients and other stakeholders.

Operational plans are designed to:

- translate an agency's strategic plan into operational terms (how the agency will achieve the objectives outlined in the strategic plan)
- outline the direction of a work area (a work area may be an agency, office, division or branch), and
- provide a foundation for performance plans of individuals within the agency.

The operational plan may be for the whole agency or at a lower level as considered appropriate by the accountable officer or statutory body. If there are a number of independent units within an agency, more than one operational plan may be developed.

Other planning requirements

As prescribed by the Act, an agency must undertake planning "appropriate to the size of the department or statutory body". Depending upon the nature and size of the agency, it may be appropriate for additional specific purpose plans to be prepared to support the agency's strategic and operational plans. For example, if the agency has a large asset base, it may be appropriate for an asset plan to be prepared.

Other legislation or Government policies may mandate the preparation of specific purpose plans, and additional information about these is available in the Agency Planning Requirements.

Information is provided below about some specific purpose plans that an agency could consider preparing. Note that this is not an exhaustive list.

Asset planning

Asset planning complements the agency strategic plan by focusing on the life cycle and associated costs of an asset and how that asset aligns with the service delivery outcomes and Government priorities.

An asset plan should provide for:

- analysing the key issues that may influence the agency's requirements for assets in the medium to long term
- analysing the appropriateness of existing assets in relation to the agency's strategic plan and needs of its clients
- identifying the need for new assets and developing strategies to meet that need
- achieving and maintaining the appropriate level of operational performance for assets
- maintaining physical assets in an appropriate condition, and
- developing strategies for disposing of assets that are surplus to agency requirements.

Refer to *Information Sheet 3.8 – Property, Plant and Equipment Systems* for additional information about asset planning.

Workforce planning

Workforce planning provides managers with a framework for making informed staffing decisions in line with an agency's role/purpose, strategic plan and budgetary resources. It also provides a means of integrating a range of human resource management strategies, including flexible work practices, succession planning, individual performance management, staff development, pay equity, performance pay, use of temporary or casual employees, etc.

All organisations, including public sector agencies, need to implement a range of human resource strategies, either to comply with legislative or government policies or to attract and maintain a stable and capable workforce.

Workforce planning is a means of integrating and giving meaning to these strategies which, if implemented in isolation, may not produce the expected outcomes and benefits.[6]

Risk management planning

Development of a risk management policy and annual risk management plans should underpin the effective implementation of risk management in an organisation. This should also be supported by management and communicated across the organisation. A risk management plan should include strategies to manage risk, and be linked to the strategic plan.

Business continuity planning

Business continuity is an important component of an agency's overall risk management arrangements and ensures the re-establishment of essential services as soon as possible following a catastrophic event. Business continuity arrangements should address immediate crisis arrangements, plans for the resumption of essential services immediately following a catastrophic event, and longer-term recovery arrangements.

Related resources

- Agency Planning Requirements, Department of the Premier and Cabinet
  http://www.premiers.qld.gov.au/publications/categories/policies-and-codes.aspx
- A Guide to Risk Management
  http://www.treasury.qld.gov.au/office/knowledge/docs/risk-management-guide/index.shtml
- Workforce planning
  https://www.qld.gov.au/gov/plan-your-workforce

Further information

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Alternatively, email the Financial Management Helpdesk (fmhelpdesk@treasury.qld.gov.au) with details of your query and a response will be provided.

[6] Workforce planning toolkit, Public Service Commission