Internal Audit Manual

March 2016
Document information

Title: Internal Audit Manual
Version: V 1.0
Approved date: 7 March 2016
Approvers: Chief Executive, Office of Sport
Endorsed Date: 7 March 2016
Endorser: Chair, Audit and Risk Committee, Office of Sport
Owner: Chief Audit Executive
Publishing: This charter may be published on both the intranet and internet.
Review: Every 3 years
Next Review: March 2019

Related Documents and Forms:
- Internal Audit Charter
- Audit & Risk Committee Charter

Related Internal Policies:
- Enterprise Risk Management Framework
- Enterprise Risk Management Policy & Procedure

Related External Links:
- TPP 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector
- TPP 12-04 Guidance on Shared Arrangements and Subcommittees for Audit and Risk Committees
- Revised Institute of Internal Auditors International Professional Practices Framework (IPPF) Standards of 2013

Document amendment history

<table>
<thead>
<tr>
<th>Version</th>
<th>Amendments</th>
<th>Author</th>
<th>Date</th>
<th>Record no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>V1.0</td>
<td>Initial release – developed in consultation with Deloitte. Endorsed by ARC 7 March 2016.</td>
<td>K. Keyes, Chief Audit Executive</td>
<td>March 2016</td>
<td>CDOC16/7346</td>
</tr>
<tr>
<td>V1.1</td>
<td>Update position titles</td>
<td>C. McLeod, A/Mgr Audit Risk &amp; Governance</td>
<td>June 2016</td>
<td>CDOC16/7346</td>
</tr>
</tbody>
</table>
Contents

1 INTRODUCTION.................................................................................................................................1
  1.1 Shared Arrangement......................................................................................................................1
  1.2 Treasury Policy Paper TPP15-03.................................................................................................1
  1.2.1 Principles of TPP15-03..............................................................................................................1
  1.2.2 Core Requirements of TPP15-03.............................................................................................2
  1.2.3 Annual Attestation...................................................................................................................2
  1.3 Internal Audit Manual..................................................................................................................3
  1.3.1 Purpose of the Internal Audit Manual....................................................................................3
  1.3.2 Scope of the Internal Audit Manual.......................................................................................3

2 AUDIT STANDARDS AND ChARTERS..............................................................................................3
  2.1 Internal Audit Charter..................................................................................................................3
  2.2 Audit & Risk Committee Charter................................................................................................3

3 RESOURCING........................................................................................................................................3
  3.1 Audit & Risk Committee (ARC).....................................................................................................3
  3.2 Chief Audit Executive (CAE).........................................................................................................4
  3.3 An Outsourced Service Provider Model........................................................................................4
    3.3.1 Contract with External Third Party Provider.......................................................................4
    3.3.2 Proficiency and Due Professional Care...............................................................................4
    3.3.3 Resource Use.......................................................................................................................6

4 INTERNAL AUDIT FRAMEWORK AND PLANNING.................................................................6
  4.1 Internal Audit Planning................................................................................................................6
    4.1.1 Strategic Internal Audit Plan...............................................................................................6
    4.1.2 Annual Internal Audit Plan..................................................................................................6
    4.1.3 Terms of Reference (Detailed Scope)..................................................................................7
    4.1.4 External Audit......................................................................................................................7

5 INTERNAL AUDIT METHODOLOGY..............................................................................................7
  5.1 The Internal Audit Cycle – Summary............................................................................................7
  5.2 Initial Planning.............................................................................................................................7
  5.3 Scoping the Internal Audit Engagement.....................................................................................8
    5.3.1 Preliminary Scoping – Risk and Control Identification.........................................................8
    5.3.2 Risk and Control Analysis (RACA).....................................................................................8
    5.3.3 Terms of Reference (Detailed Scope)..................................................................................8

6 UNDERTAKING THE AUDIT............................................................................................................9
  6.1 Commencement Meeting.............................................................................................................9
  6.2 Risk Assessment (Risk and Control Matrix)...............................................................................9
  6.3 Control Analysis (Risk and Control Matrix)...............................................................................9
  6.4 Internal Audit Program (Field Audit Program)..........................................................................9
  6.5 Audit Evidence............................................................................................................................10
  6.6 Internal Audit Working Papers................................................................................................10
  6.7 Evaluation and Conclusion.......................................................................................................10
  6.8 Working Paper Review..............................................................................................................10
  6.9 Exit Meeting...............................................................................................................................10
  6.10 Audit Recommendations.........................................................................................................10
  6.11 Basic Components of an Internal Audit Report......................................................................10
  6.12 Draft Internal Audit Reports....................................................................................................11
  6.13 Management Responses.........................................................................................................11
  6.14 Final Internal Audit Reports....................................................................................................11

7 MONITORING AND REPORTING................................................................................................11
  7.1 Recommendations and Timeframes..........................................................................................11
  7.2 Audit and Risk Committee Reporting........................................................................................11

8 INTERNAL AUDIT BUDGETS..........................................................................................................12

9 ENGAGEMENT EVALUATION......................................................................................................12
  9.1 Quality Assurance and Improvement Program..........................................................................12
  9.2 Internal Assessment..................................................................................................................12
  9.3 External Assessment................................................................................................................12
Internal Audit Manual

1 Introduction

Internal audit is a key component of effective governance within the Office of Sport (OoS), related entities and the entities who have entered into a formal Shared Arrangement Agreement.

TPP 15-03 defines internal audit as ‘an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations’. This manual defines how the internal audit function operates and should be read in conjunction with the OoS Internal Audit Charter. The charter also identifies the entities participating in the Shared Arrangement.

1.1 Shared Arrangement

A number of entities, including the OoS, are participating in a Shared Arrangement which establishes a shared Audit and Risk Committee (ARC) and the sharing of resources of an internal audit function and Chief Audit Executive (CAE).

The Shared Arrangement aligns to TPP12-04 (Guidance on Shared Arrangements and Subcommittees for Audit and Risk Committees) and has been approved by Treasury.

1.2 Treasury Policy Paper TPP15-03

The Treasury Policy TPP15-03 Internal Audit and Risk Management Policy for the NSW Public Sector was issued on 1 July 2015 as a direction to those ‘department heads’ and ‘statutory bodies’ listed in Schedule 2 and Schedule 3 of the Public Finance and Audit Act 1983. TPP15-03 assists agencies to implement their legislative obligations under section 11 of the Public Finance and Audit Act 1983, namely that they establish and maintain an effective internal audit function. In addition, TPP15-03 seeks to strengthen internal audit, risk management and governance practices across the NSW public sector by ensuring an ongoing minimum level of compliance to provide for the efficient and effective administration of the State’s resources.

TPP15-03 supports effective and efficient management by promoting the use of best practice standards and frameworks and tailoring those frameworks for agencies to implement, further develop and manage. In this regard, the core requirements concerning risk management have been largely modelled on Australian/New Zealand Standard (AS/NZS) ISO 31000:2009 Risk management – Principles and guidelines. The core requirements relating to an agency’s internal audit function have been modelled on the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing.

To support this purpose, TPP15-03 outlines three core principles. The core principles describe the outcomes sought through the effective implementation of Risk Management, an Internal Audit Function and Audit and Risk Committees in departments and statutory bodies.

1.2.1 Principles of TPP15-03

1. The agency has a risk management framework in place that supports the agency to achieve its objectives by systematically identifying and managing risks to:
   - Increase the likelihood and impact of positive events
   - mitigate the likelihood and impact of negative events

2. The agency’s internal audit function provides timely and useful information to management about:
   - the adequacy of, and compliance with, the system of internal control
   - whether agency results are consistent with established objectives
   - whether operations or programs are being carried out as planned
3. The agency head receives relevant and timely advice on the agency’s governance, risk and control frameworks and its external accountability obligations from an independent Audit and Risk Committee with appropriate expertise.

1.2.2 Core Requirements of TPP15-03

The principles are supported by Core Requirements that provide agencies with instructions for implementing TPP15-03. The Core Requirements mandated by TPP 15-03 are:

1. Risk Management

Core Requirement 1.1 The agency head is ultimately responsible and accountable for risk management in the agency
Core Requirement 1.2 A risk management framework that is appropriate to the agency has been established and maintained and the framework is consistent with AS/NZS ISO 31000:2009.

2. Internal Audit

Core Requirement 2.1 An internal audit function has been established and maintained
Core Requirement 2.2 The operation of the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing
Core Requirement 2.3 The agency has an Internal Audit Charter that is consistent with the content of the ‘model charter’.

3. Audit and Risk Committee

Core Requirement 3.1 An independent Audit and Risk Committee with appropriate expertise has been established
Core Requirement 3.2 The Audit and Risk Committee is an advisory committee providing assistance to the agency head on the agency’s governance processes, risk management and control frameworks, and its external accountability obligations
Core Requirement 3.3 The Audit and Risk Committee has a Charter that is consistent with the content of the ‘model charter’.

1.2.3 Annual Attestation

TPP 15-03 requires each agency head to produce an Attestation Statement for the prior financial year indicating whether it was ‘compliant’, ‘non-compliant’ or ‘in transition’ during the reporting period against each of the eight Core Requirements. A copy of the Attestation Statement must be published in the Annual Report with a copy provided to NSW Treasury before 31 October annually.

1.3 Internal Audit Manual

The Internal Audit Manual has been developed by the CAE and is consistent with TPP15-03 and the professional practices set out in the Institute of Internal Auditors Standards. The manual is reviewed by the ARC and ensures compliance with TPP15-03 clauses 2.2.3 to 2.2.6.

The manual includes the following structural elements:

- general policies and standards including the Audit Charter;
- structure, resourcing and professional development of the internal audit function;
- audit planning including strategic and annual audit planning;
- audit methodology;
- audit reports;
- recommendations and timeframes relating to monitoring and reporting;
- internal audit quality assurance and improvement; and
- information management including document security.
1.3.1 Purpose of the Internal Audit Manual

The purpose of the Internal Audit Manual is to:

- delineate principles that guide the practice of internal auditing within the OoS and the entities participating in the Shared Arrangement;
- provide a framework for performing and promoting value-added internal auditing;
- establish the basis for the evaluation of internal audit performance; and
- foster improved organisational processes and operations.

1.3.2 Scope of the Internal Audit Manual

The Internal Audit Manual applies across the entire organisation of the OoS, including all controlled entities and the entities participating in the Shared Arrangement. It addresses both assurance services and consulting services provided by the internal audit function.

These two types of internal audit services have been defined by the IIA as follows:

- **Assurance Services** – an objective examination of evidence for the purpose of providing an independent assessment of risk management, control or governance processes for the organisation; and
- **Consulting Services** – advisory and related client activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve an organisation’s operations.

2 Audit Standards and Charters

Internal Audit activities will be conducted in accordance with relevant professional standards including *International Standards for the Professional Practice of Internal Auditing* (ISPPIA) issued by the Institute of Internal Auditors (IIA).

Other documents that should be read in conjunction with the Internal Audit Manual include the Internal Audit Charter and the Audit & Risk Committee Charter.

2.1 Internal Audit Charter

The Internal Audit Charter is followed and adopted by the internal audit function. The charter is reviewed annually and includes information on the entities participating in the Shared Arrangement.

2.2 Audit & Risk Committee Charter

The ARC Charter sets out the Committee’s objective, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements. All relevant requirements contained in the charter are followed by the internal audit function.

3 Resourcing

The internal audit function has been outsourced by contracting the services of external audit providers. While the providers are responsible for undertaking internal audits on behalf of the Office of Sport (and the entities participating in the Shared Arrangement), the CAE and the ARC provide oversight of the internal audit function.

3.1 Audit & Risk Committee (ARC)

The roles and responsibilities of the ARC are outlined in ARC Charter.
3.2 Chief Audit Executive (CAE)

The CAE is responsible, in consultation with the ARC, for the following activities for the OoS and the entities participating in the Shared Arrangement:

- developing and regularly reviewing an Internal Audit Charter and an ARC Charter;
- ensuring a risk based Strategic Internal Audit Program is developed and implemented (consisting of a 3 Year Internal Audit Plan and an Annual Internal Audit Plan);
- selecting an audit provider (to carry out duties as described in 3.3 below);
- implementing a risk based audit methodology for assessing and responding to audit findings, with risk ratings aligning with the rating system used by the OoS;
- ensuring a course of action is recommended for every significant audit finding, and ensuring that these actions are referred to operational management for formal response;
- monitoring the progress in implementing endorsed management responses to audit recommendations; and
- ensuring the provision of input which assists the ARC to be in a position to provide reasonable assurance to entity heads or governing boards that an adequate system of internal controls is in place to support:
  - Effectiveness and efficiency of operations;
  - Reliability of financial reporting; and
  - Compliance with applicable laws and regulations.

The CAE is also responsible for developing and maintaining an annual meeting schedule for the ARC to ensure it can meet all its commitments, and for providing secretariat support.

3.3 An Outsourced Service Provider Model

The OoS used an outsourced service provider model for the conduct of the internal audit program. Whether they are contracted for a single audit or for a period of time, service providers are responsible for:

- conducting risk-based audits and other projects (aligned to the OoS ERM Framework), as directed by the CAE and compliant with this Internal Audit Manual; and
- providing advice on their work to the CAE, entity heads or governing boards, the ARC and the OoS as required.

3.3.1 Contract with External Third Party Provider

TPP 15-03 section 2.2.4 requires the Chief Executive, OoS to ensure the contract for internal audit services specifies that the external third party provider will:

- be consulted in the development and/or maintenance of the Internal Audit Manual;
- apply audit methodologies that accord with the Institute of Internal Auditors Standards; and
- make the audit methodologies used accessible to the Office of Sport and its controlled entities (subject to any licensing or other restrictions that may be in place).

3.3.2 Proficiency and Due Professional Care

Internal Audit engagements must be performed with proficiency and due professional care.

Proficiency

The internal audit function collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities effectively.
Internal audit service providers are expected to be able to demonstrate their proficiency through appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations. “Proficiency” includes the capacity to evaluate the risk of fraud and/or corruption and the manner in which the risks are managed in the OoS and the entities participating in the Shared Arrangement; and sufficient knowledge of information technology risks and controls to perform their assigned work (specialists will be engaged for IT systems audits).

If an internal audit service provider lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement, her or she must decline a consulting engagement, or obtain competent advice and assistance, or advise the CAE to do so.

The CAE must obtain competent advice and assistance. The CAE may terminate the original engagement if the internal audit service providers lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

**Due Professional Care**

Internal audit service providers must apply the care and skill expected of a reasonably prudent and competent internal auditor.

Internal audit service providers must exercise due professional care by considering:

- Any real or perceived conflicts of interest that may arise as part of the engagement;
- The extent of work needed to achieve the engagement's objectives;
- The relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- The adequacy and effectiveness of governance, risk management and control processes;
- The probability of significant errors, fraud, or non-compliance that might affect objectives, operations or resources; and
- The cost of assurance in relation to potential benefits.

In exercising due professional care, internal audit service providers must consider the use of technology-based audit and other data analysis techniques.

**Continuing Professional Development**

Internal audit service providers must enhance their knowledge, skills and other competencies through continuing professional development.

**Code of Ethics**

Internal audit service providers are expected to read and abide by the codes of ethics and conduct set out in the International Professional Practices Framework. The Code centres on principles of:

- Integrity;
- Objectivity;
- Confidentiality; and
- Competency.

Internal audit service providers should also be aware of the OoS own codes and policies in areas such as conduct, ethics and fraud prevention, as they may be relevant to audit methodology or findings.
Information Management including Document Security

Internal audit service providers will maintain a high level of understanding of governance, risk, and information management (including document security), that apply to the NSW public sector, and comply with the relevant legislative and government policies and requirements.

3.3.3 Resource Use

The budgeted hours and price for each assurance and consulting engagement are agreed with the CAE prior to the commencement of the engagement. Internal audit service providers are then accountable for time spent. The internal audit service providers will be monitored through appropriate contract management procedures within the OoS, and will be required to report on the progress of the Internal Audit Program at ARC meetings.

Variations to the budgeted hours or price of any project must be requested in writing and negotiated with the CAE as soon as is practicable and before the budgeted hours of the project are exceeded. The CAE may authorise or refuse any variation at his or her discretion.

4 Internal Audit Framework and Planning

The primary purpose of the internal audit function is to provide objective independent assurance to the ARC and the entity heads of the OoS and the entities participating in the Shared Arrangement that key controls over areas of highest risk are operating efficiently and effectively. The objective of the internal audit function is recognised as:

- Being a strategic business partner providing value added services to the OoS, its controlled entities and the entities participating in a Shared Arrangement;
- Optimising operations through streamlining business processes and procedures;
- Effectively providing independent assurance to senior management and the ARC over the underlying control environment;
- Assessing and reporting the level of compliance with legislation, regulation, and the organisation policies and procedures; and
- Supporting overall governance processes.

4.1 Internal Audit Planning

4.1.1 Strategic Internal Audit Plan

The scope of the Strategic Internal Audit Plan is driven by the results of an organisation-wide risk assessment process undertaken by the OoS and other entities participating in the Shared Arrangement. The risk assessment results identify the areas of highest residual risk as well as control systems which each entity is most reliant on. This information is then used to determine the most effective Strategic Internal Audit Plan.

The Strategic Internal Audit Plan will be developed by the internal audit service provider in consultation with the CAE, other entities participating in the Shared Arrangements and the ARC, every three years and will cover a three year period. The Strategic Internal Audit Plan will be based on the results of strategic, organisation-wide risk assessments and will cover the OoS and the entities participating in the Shared Arrangements.

The Strategic Internal Audit Plan will be submitted to the ARC for endorsement and then to the Chief Executive OoS for approval.

4.1.2 Annual Internal Audit Plan

Prior to the commencement of each financial year, the CAE, in consultation with the ARC, will confirm the Annual Internal Audit Plan. The Annual Internal Audit Plan will be derived from the Strategic Internal Audit Plan and set out the Audit Program for the coming year.
In apportioning OoS resourcing and budget to support delivery of the identified audit and assurance activities each year, consultation will be undertaken with the heads of the participating entities in the Shared Arrangement. These other participating entities may also choose to provide their own additional budget amounts for supplementary audit and assurance activities as they determine necessary.

The Annual Internal Audit Plan will be submitted to the ARC for endorsement and then to the Chief Executive OoS for approval. The Internal Audit Plan will be provided to each entity participating in the Shared Arrangement.

4.1.3 Terms of Reference (Detailed Scope)
Prior to the commencement of each internal audit engagement, an individual Terms of Reference (TOR) will be prepared, in consultation with the CAE and appropriate functional managers, by the internal audit service provider. The TOR will detail the specific risks to be examined as part of the engagement, as well as estimated timing and costs.

4.1.4 External Audit
The Audit Office of NSW, as the OoS’s external auditor, assesses the control environment and targets procedures specifically towards forming an opinion on the OoS and its controlled entities’ financial statements. Findings made by the external auditors, particularly unresolved matters, provide input and inform the internal audit planning.

5 Internal Audit Methodology

5.1 The Internal Audit Cycle – Summary
The Internal Audit Cycle will be conducted as follows:

- Planning the Internal Audit engagement, including developing and agreeing upon the Terms of Reference (Detailed Scope);
- Submitting the Terms of Reference to the CAE for approval prior to commencement of engagement;
- Holding an entry meeting with key stakeholders;
- Conducting the field work including conducting testing procedures, conducting process walkthroughs, and documenting results;
- Conducting an exit meeting with key stakeholders to discuss the preliminary findings of the engagement;
- Preparing a draft report for management comment;
- Agreement of management actions to mitigate the risks identified in the draft report;
- Submitting the report with management comments to the ARC for endorsement; and
- Finalisation of the Internal Audit report.

5.2 Initial Planning
In planning each engagement the internal audit service provider will consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance and achievement of those objectives;
- The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact and/or likelihood of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity’s risk management and control systems compared to a relevant control framework or model;
• Whether the scope is relevant to the risks identified when developing the internal audit plan; and
• The opportunities for making significant improvements to the activity’s risk management and control systems.

5.3 Scoping the Internal Audit Engagement

In scoping the each engagement the following elements will be completed:

5.3.1 Preliminary Scoping – Risk and Control Identification

Ascertain and map how business units currently ‘do things’, determine if the process is compliant with policy, or if better practice in terms of controls than what is prescribed.

5.3.2 Risk and Control Analysis (RACA)

For each internal audit engagement, the internal audit service provider and the CAE will agree upon the risks to be included in the scope of the internal audit. The internal audit field work will be aimed at determining the presence and effectiveness of controls in place to mitigate these potential risks.

Scoping/planning meeting

To determine the objectives and scope of each Internal Audit engagement, the internal audit service provider will meet formally with the CAE.

Audit criteria

The internal audit service provider should clarify the specific explicit and implicit criteria against which evidence collected will be evaluated. Criteria are explicit when they are clearly set out in policies, manuals, standard operating procedures, standards, laws and/or regulations.

5.3.3 Terms of Reference (Detailed Scope)

The internal audit service provider will prepare a Terms of Reference (Detailed Scope) that will normally include the:

• Overview of the area to be audited;
• Background on why the audit is taking place;
• Objectives of the audit;
• Scope of the audit i.e. the processes the audit will include and exclude;
• Audit standards that will be followed including the type of engagement;
• Audit approach to be taken;
• Key deliverables of the project;
• Professional standards that will be followed;
• Resources that will be used on the audit and the cost; and
• Timing for the commencement of field work.

The draft Terms of Reference (Detailed Scope) will be sent to the CAE for review with appropriate management and endorsement.

On CAE endorsement, it will be finalised by the internal audit service provider. The final Terms of Reference (Detailed Scope) must be approved and signed by both the CAE and the internal audit service provider’s engagement partner before the commencement of field work.
6 Undertaking the Audit

6.1 Commencement Meeting

The purposes of the Commencement Meeting are to:

- ensure all relevant staff of the audited area are aware that the audit is taking place and know who the auditors are;
- confirm the project timetable; and
- signal the commencement of field work.

The Commencement Meeting will be attended by the CAE and senior management from the area to be audited. It will be chaired by the internal audit service provider.

6.2 Risk Assessment (Risk and Control Matrix)

As part of scoping an audit, a risk assessment is conducted at the activity level to identify and evaluate risk exposures and determine audit objectives. It involves considering business process risks, quality of management and individual performance in different situations. As part of the planning activities, the risks that threaten the objectives of each process to be audited should be identified and classified. The audit will concentrate on those processes which are assessed as moderate or higher risk. The risk categories of these processes indicate the types of objectives that should be included in the audit project plan.

6.3 Control Analysis (Risk and Control Matrix)

All audits, regardless of their nature, involve providing assurance on the design and effectiveness of a system of internal control. After obtaining an understanding of the internal control system by way of interviews, documents and records, questionnaires, systems documentation, walk-throughs and/or performing some initial analytical procedures or data analysis, the internal audit service provider should make a preliminary assessment of the internal control system to determine whether identified controls are designed to meet the control objectives and mitigate risks.

6.4 Internal Audit Program (Field Audit Program)

To test the existence and/or effectiveness of controls in place to treat identified risks, the internal audit service provider will follow documented internal audit programs which involve reviewing and documenting current processes and conducting sample testing where appropriate.

The structure of the audit program should be made up of the following:

- Audit objective;
- Audit scope;
- Risk and Control Analysis/Matrix (RACA or RACM);
- Audit criteria; and
- Previous audit recommendations – in cases where previous audits are relevant. The internal audit service provider will then verify that the matters have been addressed or are being addressed.

Internal Audit sampling will be conducted in line with contemporary sampling methodologies.

During the course of the field audit, the internal audit service provider will communicate matters of significance with the CAE to minimise the possibility of "surprises" at the end of the audit. This may be done informally (e.g. emails, discussions) or via formal meetings.
6.5 **Audit Evidence**

Audit evidence refers to all the information used by the internal audit service provider in arriving at the recommendations. It should be sufficient, competent, relevant and useful, that will assist the Office of Sport and the entities participating in the Shared Arrangement to meet entity goals. Evidence collected by the internal audit service provider should possess all of these qualities. Sample sizes should be representative and sufficient to ensure that conclusions reached may be validly extrapolated from the data.

6.6 **Internal Audit Working Papers**

Proper working papers document the work that was done from the preliminary scoping stages through to the final report. Audit working papers show whether due professional care was exercised and illustrate compliance with professional auditing standards. Careful documentation of work performed is necessary to support the findings, recommendations and opinions contained in the final audit report.

Field work and testing will be documented in the internal audit service provider’s standard format working papers. TPP 15-03 section 2.2.7 requires that all internal audit documentation is to remain the property of, and to be able to be accessed by, the audited agency, including where the internal audit services are performed by an external third party provider.

6.7 **Evaluation and Conclusion**

The analysis and evaluation of evidence obtained should give rise to issues (positive and negative), which the internal audit service provider may report to management. Conclusions should be specified, free from personal biases or prejudices, and be objective. The conclusion reached by an internal audit service provider should be the same as that which would have been reached by a similar experienced professional reviewing the same evidence.

6.8 **Working Paper Review**

All working papers will be subject to a quality assurance and technical review by a more senior staff member of the internal audit service provider than the staff member who completed the working papers.

6.9 **Exit Meeting**

An Exit Meeting will be held to discuss the findings from the audit field work and for the internal audit service provider to confirm facts or clarify information.

The Exit Meeting will be attended by the internal audit service provider, CAE and senior management from the audited area. The appropriate entity head may attend the meeting as required.

6.10 **Audit Recommendations**

Audit recommendations should be based on the issues raised in the finding, implementable within a foreseeable period, and practicable taking into account the size of the risk and the size of the agency budget.

6.11 **Basic Components of an Internal Audit Report**

At the completion of internal audit field work, an Internal Audit report will be presented to management. The Internal Audit report will specifically:

- Include an Executive Summary which will describe the Objective, Scope, Background, Key Controls and Positive Observations and Key Findings / Opportunities for Improvement;
- Detail any risks identified that were not effectively treated and suggestions for improvement;
• Prioritise the risks identified through the use of the OoS Risk Assessment Tables;
• Propose recommendations to further treat the identified risks;
• Detail management’s comments in response to the recommendations made and management’s action plans; and
• Provide an overall engagement rating of the control effectiveness using the OoS Control Effectiveness Table.

6.12 Draft Internal Audit Reports
Subsequent to the Exit Meeting a new, formal draft report (marked “draft”) will be issued to the CAE for management responses.

6.13 Management Responses
All management responses which appear in the audit reports must fall within three categories: Accepted, Rejected or Partially Accepted.

The response should then concisely detail the action management intends to take in response to the recommendation, stating who will take action and when it will be completed. If the recommendation is wholly or partially rejected the response must say why.

When considering the date by which the action will be completed, management should weigh the risk against the resources available for action, to arrive at a realistic date for completion.

6.14 Final Internal Audit Reports
Following completion of management responses, the internal audit reports with management comments will be submitted to the next ARC meeting for endorsement. The service provider and the CAE will be requested to attend the meeting to answer any questions the ARC may have.

7 Monitoring and Reporting

7.1 Recommendations and Timeframes
The CAE will track progress towards implementing agreed actions to internal audit recommendations to ensure that they are implementable within the agreed timeframes.

The CAE will maintain an Internal Audit Issues Register which records agreed action items for each Internal Audit engagement, responsible officers and expected completion dates.

The Internal Audit Issues Register will be updated to record the implementation status of existing audit recommendations, at least on a quarterly basis for reporting to the ARC.

7.2 Audit and Risk Committee Reporting
The ARC reporting will be prepared on at least a quarterly basis including:
• Current progress through the Annual Internal Audit Plan, highlighting where progress has been delayed;
• Internal audit reports with management comments; and
• Internal Audit Issues Register that records the implementation status of existing audit recommendations and risk ratings.
8 Internal Audit Budgets

Internal Audit engagement budgets are developed by the internal audit service provider and approved by the Chief Audit Executive. Budgets take into account the nature and complexity of each engagement, time constraints and available resources, and ensure that resources are appropriate and sufficient to achieve the engagement.

9 Engagement Evaluation

9.1 Quality Assurance and Improvement Program

TPP 15-03 section 2.3.14 requires the CAE to ensure that a documented and operational Quality Assurance and Improvement Program is in place for the internal audit function.

TPP 15-03 section 2.3.15 requires that this program must include both internal and external assessments.

9.2 Internal Assessment

According to TPP 15-03 section 2.3.15, internal assessments will include:

- Ongoing monitoring of the performance of the internal audit function; and
- Periodic self-assessments or assessment by persons within the agency with sufficient knowledge of internal audit practices.

The annual review is an assessment conducted to evaluate compliance with TPP 15-03, the IIA Code of Ethics, and the IIA Standards. The following evaluation forms/surveys are used for the annual review:

- ARC self-assessment;
- Compliance with TPP 15-03;
- Review of Chair’s performance by the CE of the Office of Sport;
- Review of Committee members’ performance by the Chair;
- Review of the internal audit function including the performance of the CAE; and
- Review of the external audits.

9.3 External Assessment

TPP 15-03 section 2.3.16 requires that an external assessment of the internal audit function should be conducted at least once every five years by a qualified, independent assessor. In this context ‘independent assessor’ means one which has no conflict of interest and is not a part of, or under the control of, the Office of Sport (or entities participating in the Shared Arrangement) or the external third party provider.

This review must consider compliance with and performance against TPP 15-03 and the relevant professional standards by the OoS and other entities participating in the Shared Arrangements.
Approval

Reviewed by Chair of Audit and Risk Committee. Reviewed by the entity head or in accordance with a resolution of the Governing Board of the following participating entities comprising the Shared Arrangement:

Office of Sport
Chief Executive
(Sign and date)

State Sporting Venues Authority
Executive Director, Sport and Recreation Services (Sign and date)

Venues NSW
Chairperson VNSW Board
(Sign and date)