



## Introduction

This protocol outlines the respective roles and responsibilities of Internal Audit and management in the course of an audit and the opportunities for consultation during the audit process.

## Purpose of Internal Audit

Internal Audit provides an independent and objective review and advisory service to:

- provide assurance to the Commissioner that AFP's financial and operational controls designed to manage the organisation's risks and achieve the organisation's objectives are operating in an efficient, effective and ethical manner; and
- assist management in improving the AFP's business performance.

## Independence

Independence is essential to the effectiveness of the Internal Audit function.

Internal Audit has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in original line processing functions or activities.

Internal Audit reports functionally to the Audit Committee. The Chief Audit Executive (Manager Internal Audit & Business Analysis) is accountable to the Commissioner and also reports through an Administrative Delegate (National Manager Policy & Governance) to the Chief Operating Officer.

## Authority and confidentiality

Subject to compliance with AFP security policies, Internal Auditors are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information that the Chief Audit Executive considers necessary to enable Internal Audit to meet its responsibilities.

All records, documentation and information accessed in the course of audits are used solely for auditing purposes. Under its legislation, the Australian National Audit Office has access to all relevant AFP documents including Internal Audit reports.

## Standards and values

Audit activities are also conducted in accordance with relevant professional standards including:

- Standards for the Professional Practice of Internal Auditing issued by the Institute of

## Internal Auditors

- Standards relevant to Internal Audit issued by the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia, and
- The Statement on Information Systems Auditing Standards issued by the Information Systems and Control Association.

Internal Audit activities are conducted in accordance with the Australian Public Service and AFP values, policies and procedures.

## Planning and consultation

Internal Audit prepares a 3 year Strategic Audit Plan (SAP) and annual Internal Audit Program (IAP) in consultation with the Commissioner, the Executive, senior management and the Audit Committee. The SAP and IAP are based on the risks facing AFP, specific concerns that may be raised by the Executive and the business improvement opportunities available to AFP.

The SAP and the IAP are approved by the Commissioner after endorsement by the Audit Committee. The IAP is available on the AFP intranet.

In addition, audits not on the audit work plan can be commissioned by the Commissioner, the Audit Committee or management<sup>1</sup>.

## Audit process

The various stages in the audit process are outlined below.

### Preliminary consultation

#### Scoping meeting

Prior to commencing the audit, Internal Audit will consult with the relevant National Manager on the:

- objectives and scope of the audit;
- likely commencement date and duration;
- locations to be visited, and
- nomination of an Audit Liaison Officer (ALO).

Internal Audit will issue a **draft audit plan** to the ALO and National Manager for comment promptly following the scoping meeting, generally within 5 working days. If no comment is received within 5 working days the plan is considered accepted by the National Manager.

The draft audit plan will be sent to a member of the Audit Committee for review and approval on behalf of the Committee. The member has two working days to respond to this request and if no response is received in this time the draft plan will be considered approved. Once approved by

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<sup>1</sup> Audits commissioned by management and not included in the annual Internal Audit Program require the agreement of the Audit Committee.

the Audit Committee the audit is authorised to commence and a copy of the **final audit plan** will be sent to the National Manager and ALO.

## Opening interview

An opening interview will be conducted shortly before the start of the audit with management of the area to be reviewed. The purpose of the opening interview is to:

- enable the audit team to meet key staff of the area being reviewed;
- clarify the objectives, scope and timing of the audit;
- provide an opportunity for staff of the area being reviewed to present their views and perspectives on the matters subject to audit;
- finalise the plan for conducting the audit in terms of timing, duration, staff involvement; and
- arrange access to buildings, personnel, files, systems and data in order to commence fieldwork.

## Fieldwork

Fieldwork will commence after the opening interview. During fieldwork internal auditors will seek sufficient and appropriate evidence to support findings against the criteria as set out in the internal audit plan. Fieldwork will be conducted in close consultation with operational staff and auditors will often physically locate themselves at the relevant AFP workplace during this phase.

Internal Audit is committed to a 'no surprises' approach and on-going discussions will be held with the ALO as findings emerge and conclusions are developed. At the end of fieldwork, a formal meeting will be sought with the ALO to discuss the summary of findings. It is expected that the ALO will communicate these findings to the National Manager as required.

If necessary, Internal Audit will communicate significant matters of concern to the Chief Audit Executive and/or the Audit Committee prior to the completion of the final report.

## Reporting

### Exit interview

At the conclusion of the fieldwork, Internal Audit will prepare a **first draft report** to be used as the basis for discussion at an exit interview that will be offered to the National Manager. The first draft report will be provided to the National Manager at least 5 working days prior to the interview.

The purpose of the exit interview is to:

- advise management about the provisional findings, conclusions and recommendations;
- afford management the opportunity to correct any misunderstandings or misinterpretations;
- discuss findings and conclusions and obtain management's views; and
- discuss the practicality of recommendations and timeframes for any remedial action.

## Final Draft report

Internal Audit will issue a **final draft report** to the National Manager and the ALO promptly following the exit interview, generally within 5 working days.

### *Management comments*

On receipt of the final draft report, the ALO and management of the work area under review should:

- consider the findings and recommendations in the draft report;
- formally advise Internal Audit whether management agrees or disagrees with the recommendations in the draft report;
- where management agrees with a recommendation, management should prepare an action plan to address the recommendation, set a timeframe for implementing the action plan and nominate the individual responsible for implementation; and
- where management disagrees with a recommendation, the reason for the disagreement should be provided<sup>2</sup>.

Management comments are required within 10 working days of the receipt of the final draft report. If Management comments are not received within the 10 working days the report will be referred to the responsible DC or COO with the report to be completed and issued 3 days later.

## Completed report

Within 3 working days of the receipt of management comments, Internal Audit will issue a completed report to:

- the National Manager;
- the ALO; and
- any other National Managers who are responsible for recommendations.

Where appropriate, lessons learnt and examples of better practice will be disseminated to a wider audience in AFP.

A client satisfaction questionnaire will be sent with the completed report. The ALO should complete the client satisfaction questionnaire and return it to the Coordinator Internal Audit. The Coordinator Internal Audit will follow up any feedback indicating possible shortcomings in Internal Audit performance.

## Final report

Each Completed Report is presented at the next available Audit Committee meeting by a member of the Audit Committee. Once accepted the report is deemed to be Final and all stakeholders will subsequently be advised of the Committee's considerations of the report and any action that

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<sup>2</sup> While management agreement is not always necessary, it would be expected that discussions would be held with the ALO with the aim of reaching agreement. The reasons for any disagreement will be included in the final audit report together with any Internal Audit response.

arises from it.

## Monitoring the implementation of agreed recommendations

The Audit Committee is responsible for examining all Internal Audit reports. Internal Audit assists the Audit Committee in monitoring progress in implementing agreed recommendations that have a high or critical associated risk rating, or lower if deemed necessary by the Audit Committee. Internal Audit will, therefore, periodically seek advice from management regarding progress in implementing agreed recommendations.

## External audits

### The Auditor-General

The Auditor-General Act 1997 and the Financial Management Accountability Act 1997 provide the framework for external audits on Commonwealth agencies such as the AFP. The Auditor-General heads the Australian National Audit Office (ANAO) and can, along with authorised officials:

- direct an employee (in writing) to provide information, produce documents and give evidence;
- enter and remain on any AFP premises at all reasonable times;
- have full and free access at all reasonable times to any documents or property;
- examine, make copies of or take extracts from any document (including documents with a security classification); and
- use all reasonable facilities for the effective exercise of the above powers.

All ANAO audits are tabled in Parliament and are public documents.

### Annual financial statements audit

Each year the Commissioner is required to provide audited financial statements to the government. This audit process is usually divided into 2 phases.

### Interim audit

An Interim Audit is usually conducted before the end of a financial year and focuses on:

- any system that the auditor perceives as having an impact on both the content and form of the financial statements; and
- assessing the general state of information technology and of financial administration within the AFP.

### Final audit

The Final Audit occurs within a strict timeframe with the results usually settled by early August of each year. Informed by the Interim Audit, the focus of the Final Audit is on:

- the material accuracy of the information provided in the financial statements; and
- the manner in which the information is provided.

A copy of the Financial Statements must be included in each *AFP Annual Report* although the Auditor-General can also separately report to parliament. An audit opinion is given against the objective of providing assurance to the parliament (and through it, the people of Australia) that the AFP's financial administration and accountability is as it should be.

### Performance audits

Performance audits are to:

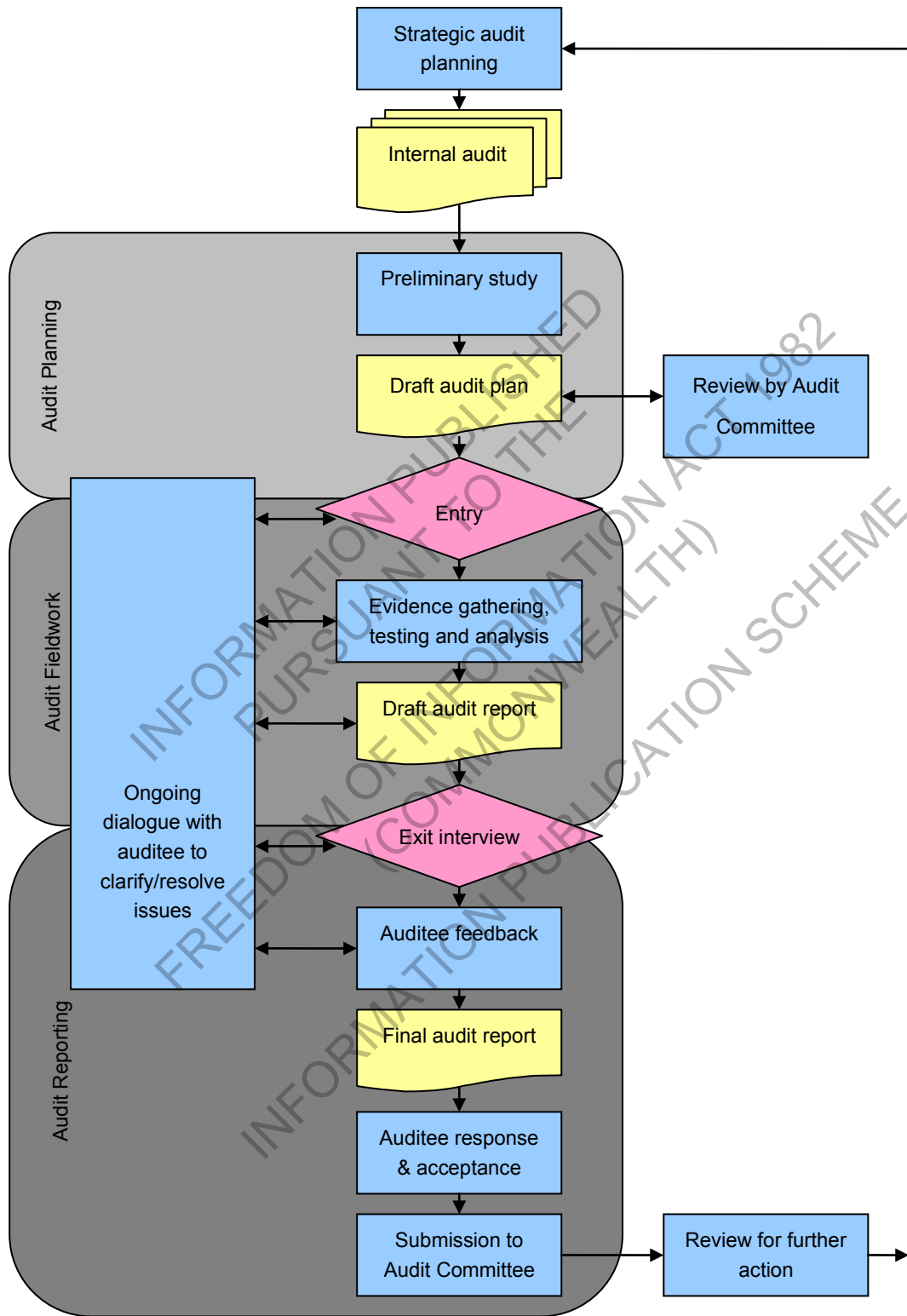
- provide Parliament with an assurance about the quality of management of public resources;
- assist agencies by identifying and promoting better management practices;
- assess AFP progress in remedying identified deficiencies; and
- examine any aspect of AFP administration including:
  - governance issues;
  - using human, financial and other resources; or
  - probity and legal compliance.

### Line management responsibilities for external audits

For the Annual Financial Statement Audit the Australian National Audit Office (ANAO) and AFP have an agreed convention for coordination and communication. The AFP Financial Controller is the ANAO's first point of contact within the Chief Finance Officer's portfolio and Manager Business Engagement is the point of contact within the Chief Information Officer's portfolio.

For performance audits of the AFP the ANAO generally uses an approach similar to that used by Internal Audit, although the audit process must be confirmed in writing at the beginning of the audit. Attachment B outlines how line management should facilitate an ANAO performance audit. Lead National Managers should ensure the AFP Audit Committee is informed of progress (through MIABA) and has enough time to clear the AFP's final response to a draft audit.

Attachment A – Internal Audit Process Flowchart



## Attachment B – Action to be taken when ANAO undertakes an audit of the AFP other than the Annual Financial Statements Audit

A performance audit focussed on the AFP would normally be known well in advance through the ANAO's regular participation in Audit Committee meetings as observers and the publication of its Annual Performance Audit Program. Copies of any audit related correspondence to or from the ANAO should be forwarded to MIABA to ensure that Audit Committee is kept informed about the progress of the audit.

If access to security classified information is likely, then early action should be taken to point this out to the ANAO. The ANAO is most likely to cooperate by ensuring that all relevant members of the audit team hold an appropriate and up to date security clearance, which the ANAO will confirm in writing on request.

### Entry interview

At the entry interview, ANAO staff will normally provide information on the:

- nature of the audit and the timetable for its implementation, such as whether it is a regularity or a performance audit;
- audit objective;
- boundaries of the audit such as whether it is being conducted in a number of states/regions or in other areas or agencies;
- number of ANAO staff conducting the review and the likely duration so that suitable accommodation arrangements can be made as required; and
- identity of the ANAO Audit Manager.

An entry interview represents possibly the only opportunity to ensure that priorities from the AFP's perspective are clearly set. Any matters of concern should be clarified at the entry interview. Internal Audit staff are available to participate in any ANAO entry interview, and their involvement is encouraged by the Audit Committee.

### Fieldwork

Fieldwork may be scheduled by the ANAO to be undertaken by its staff at any reasonable time. While the ANAO is prepared to consult on the timing of fieldwork, it will not accept what it perceives as an unreasonable delay of its audit program.

The Auditor-General's Act confers on the Auditor-General and his staff the right of access to any and all records or documentation held in the AFP. The AFP should be cooperative in this regard and should ensure that any relevant material is made available to the auditors on request.

Where there is a perceived problem with the practicability, legality or the efficacy of providing information requested by ANAO staff, the matter should be taken up with the ANAO Audit



Manager. The powers of the Auditor-General are substantial and a perception that the AFP is engaging in persistent obstruction may be counter productive.

If difficulties persist, MIABA should be contacted for appropriate assistance and advice and an agreed escalation process is set out later in this document.

It should be noted that it is possible that, as a result of fieldwork, the parameters of an audit may change. The Auditor-General's staff will normally advise any such changes which occur and the reasons for them.

## Exit interview

At the conclusion of the fieldwork, ANAO staff will normally seek to arrange an exit interview with AFP staff to discuss the draft audit findings and to resolve any discrepancies or differences. Relevant managers should insist on an exit interview if it is not suggested by ANAO staff.

The ANAO should provide, well in advance of the exit interview, a copy of a discussion paper/exit interview notes to the AFP so that it can consider and fully discuss the issues raised. Unless this is done it may be difficult for AFP staff to respond adequately to the audit findings at the exit interview.

The operational manager should advise MIABA of the arrangements for the exit interview so that an IA representative can attend. A copy of the relevant papers should be provided to IA before the exit interview takes place. Any queries regarding proceedings at the exit interview should be directed to MIABA before the meeting.

At the exit interview the AFP's representatives will be invited to comment on the validity of the audit findings and the appropriateness of the recommendations. The ANAO would prefer to discuss any false premises in its reasoning and any alternatives to its recommendations in the exit interview forum so that any subsequent report to the Parliament or to the responsible Minister reflects a considered and viable position.

AFP staff should challenge the ANAO's findings and recommendations if they consider them to be inaccurate, unreasonable or unsubstantiated, but they must be in a position to support their arguments. It would be useful to estimate the costs and implications of taking up the ANAO's recommendations, and to suggest alternative recommendations where appropriate.

A note for file should be prepared by the operational manager after the exit interview, with copies directed to the manager's own supervisors and MIABA.

## Audit reporting

The ANAO will direct a draft of the Auditor-General's report to the AFP after the exit interview. The draft report communicates the results of the audit, and the AFP will be invited to provide a written response to the recommendations, and any other comments. A draft of such correspondence should be sent to the Chair of the Audit Committee for clearance in sufficient time

prior to the deadline set by the ANAO to allow for any further high level considerations.

Relevant managers should begin the preparation of responses soon after the exit interview as the main findings will be contained in the discussion paper/exit interview notes. MIABA may be able to help with the format of responses.

It may be necessary for the Chair of the Audit Committee to appoint someone to coordinate responses that may require input from more than one area. The standard of responses must be high. Information provided to the ANAO must be thorough and accurate and must reflect the views of the AFP as a whole rather than of any individual.

The Auditor-General is obliged to publish in full all formal responses to performance audits. There may be a need to clearly delineate responses for publication, and responses for information or for the purpose of persuading the ANAO to reconsider their position. While the ANAO would prefer to have succinct responses for publication purposes, authors of responses need to be careful that the AFP is represented in a professional manner in such public reports.

Auditor-General's reports may also be subject to further investigation by a Parliamentary Committee. In the infrequent event that the ANAO and the AFP have not resolved an agreed position on any point at the exit interview, it would be open to the AFP to respond in a manner that should lead to both sides of the argument being formally reported.

Formal responses should be made within 28 days as prescribed in the Auditor-General's Act. If a delay is likely this should be discussed with the ANAO Audit Manager. If the AFP fails to respond, the Auditor-General's final report could contain criticism of the delay or, as a last resort, could be published without the AFP's comments.

Further planning and action may be appropriate in anticipation of the tabling of the audit report in Parliament.

### Escalation process

Noting that general day to day contact will be via the AFP Coordinator Internal Audit or the nominated Business Area Liaison Officer, in the event that an ANAO Officer wishes to escalate an issue due to failure of an AFP member to provide reasonable and timely assistance or provide information as requested:

- The Manager Internal Audit and Business Analysis should be contacted by the ANAO in the first instance and given the opportunity to resolve the issue;
- If further resolution is required, National Manager Policy and Governance should be contacted; and
- Should the issue still remain unresolved the Chair of the Audit Committee (currently the Chief Operating Officer) should be contacted.