



Internal Audit Framework

AUTHORITY AND CLASSIFICATION

Owner	Director Internal Audit	Ext: 75504
Stakeholders for consultation	Finance and Audit Committee	
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Category	Framework	

1.0 Overview

The Internal Audit function at the University of Sydney is governed by the Internal Audit Charter.

The Internal Audit Framework details the purpose, objectives and deliverables of Internal Audit and explains the methodology and standards used to achieve independent assurance outcomes.

Internal Auditing is 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 (Institute of Internal Auditors).

The function of Internal Audit is to provide an advisory service to senior management. The department does not exercise direct authority over the persons in the organisation whose work is under review. Additionally the work of Internal Audit in reviewing, reporting, and appraising established policies, plans and procedures does not in any way relieve operating line department personnel of responsibilities assigned to them.

2.0 The Role of Internal Audit

The primary role of Internal Audit is to complement the organisations Risk Management strategies and accordingly contribute to the organisational focus of good corporate governance and responsible financial management. This is achieved by systematic reviews of management processes and policies. The overall purpose of Internal Audit is to assist all members of management and staff in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations and pertinent comments concerning the activities reviewed. Internal Audit is responsible for reviewing as necessary all operations of The University of Sydney and reporting to Management and the Finance and Audit Committee the results of those reviews.

Internal Audit will review all sectors of The University of Sydney at appropriate intervals to determine whether they are efficiently and effectively carrying out their functions. This will include determining the adequacy and effectiveness of The University of Sydney's systems of internal controls, including reviewing the reliability and integrity of financial information and the means used to identify, measure, classify and report such information.

All Internal Audit assignments will be performed to meet both The University of Sydney's own standards and those of professional practice issued by the Institute of Internal Auditors.

Internal Audit is responsible administratively to the General Counsel, and functionally to the Finance and Audit Committee of The University of Sydney. This reporting structure is designed to provide independence, promote objectivity and ensure appropriate assurance coverage is maintained across the organisation. Internal Audit has no executive or managerial powers.

Internal Audit has the authority to inspect records and property at any location and may make direct contact with any level of management in connection with its work. Departments or activities under review are expected to render every possible assistance that will facilitate the progress of the review.

The extent and frequency of recurring assurance reviews depend upon varying circumstances such as conditions found during previous reviews, performance reflected on standard reports, volume of transactions, and adequacy of the system of internal control. Therefore, no set rules are established as to the number of times each activity will be visited, nor as to specific subjects that are reviewed.

3.0 Professional Standards

Internal Audit activities will be conducted in accordance with the Institute of Internal Auditors International Professional Practices Framework, Relevant Accounting Bodies' Ethical and Professional Standards and Guidance, The University of Sydney's Policies and Code of Conduct and other applicable good practice guidelines (Refer to Appendix 1 for IIA Standards). Such standards and guidelines supplement the approach outlined in this framework.

4.0 Roles and Responsibilities

4.1 Director Internal Audit Responsibilities

The Director Internal Audit will:

- Have prime responsibility for an audit assignment.
- Be responsible for ensuring that the audit complies with The University of Sydney's policies and the standards and guidelines issued by the Institute of Internal Auditors.
- Meet with and submit activity reports to the Management on a regular basis
- Present relevant reports to the Finance and Audit Committee on an as required basis.

The structure and content of the activity reports will highlight significant audit findings and recommendations, and detail any deviations from the approved audit plans.

4.2 Team Responsibilities

In the conduct of Internal Audit work, Internal Audit staff will:

- Comply with relevant professional standards.
- Possess the knowledge, skills and technical proficiency relevant to the performance of their duties.
- Be skilled in dealing with people and communicating audit, risk management and related issues effectively.
- Maintain their technical competence through professional or other development.
- Exercise due professional care in performing their duties.

- Provide reasonable assurance on the internal control environment.
- Promote a strong ethical culture throughout the organisation.

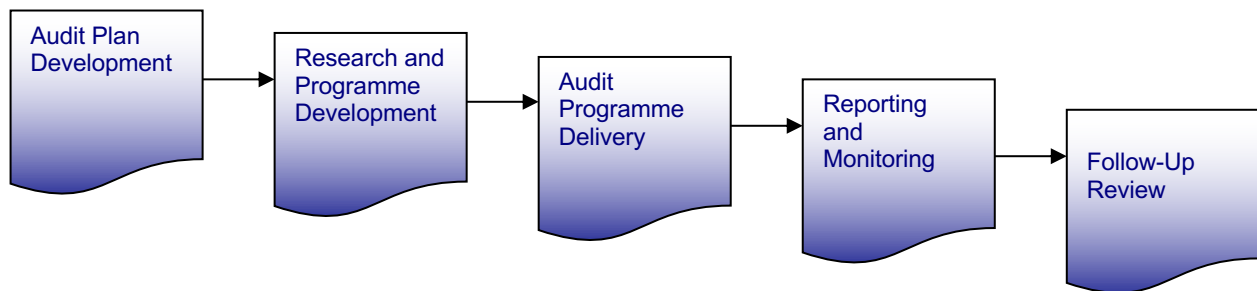
5.0 Internal Audit Process

Internal Audit apply an approach to its service provision that reflects accepted best practise, whilst at the same time ensuring that it is both practical and tailored to The University of Sydney's management and operating environment.

An integrated approach is followed utilising a proven methodology that caters for individual organisational needs.

5.1 Audit Approach

The purpose of The University of Sydney's independent assurance approach is to enable the development of a strategic work plan that is designed to best meet the organisations objectives. The approach in summary entails the following key phases:



Although the above diagram lists various activities in the order in which we generally perform them, in practice many of these activities are performed continuously throughout our reviews. For example, the knowledge of The University of Sydney's activities and business is increased on a continuous basis and factors are recognised that could cause a change to initial assessments of risk which subsequently impacts on the Internal Audit plan.

A risk based, easy-to use assurance planning methodology has been developed as a critical step in laying a strong Internal Audit foundation. It is based on a "top-down" approach to risk identification, from the overall organisational level to detailed assignment planning. The process is a cooperative one requiring on-going consultation and input from The University of Sydney's management and staff and where appropriate, the External Auditors. This ensures effective and clear allocation of responsibilities between Internal Audit and External Audit.

The audit plan is designed to identify and concentrate on areas of importance, to provide an effective and efficient review and seek to add value to the organisation's activities. Detailed plans are prepared and updated annually.

5.2 Audit Planning

The Internal Audit planning process involves the establishment of an audit plan which allocates the available audit resources across an annual work programme. Generically auditable areas that require review are reflected in the nature of the organisation's activities however as limited resources are available it is necessary to prioritise the areas to be reviewed.

It is important to note that Internal Audit work plans and programmes of work are driven from an assessment of risk analysis and mitigation strategies. This requires each auditable area to be assessed on the basis of its impact and/or contribution to the achievement of the organisation's strategic objectives. This aligns Internal Audit with the organisation's strategic direction thereby ensuring that the function is strategically focused and that resources are directed to areas of importance that impact on the vision and strategies affecting The University of Sydney.

5.2.1 Identification of Auditable Areas

The University of Sydney undertakes both financial and non-financial activities. It is important that all activities are considered in the audit planning process.

In order to identify and prioritise the audit topics to be reviewed a number of risk factors have been adopted. The factors used are:

- ***Previous Audit Coverage***

This factor takes into account the results from previous Internal Audit reviews. Areas where problems have been identified previously receive a higher risk rating.

- ***Materiality***

This factor takes into account the likely impact of something going wrong in a particular area. The impact is not measured purely in dollar terms but may also in some cases reflect where appropriate intangible factors.

- ***Gross/Control Risk***

Gross Risk is the intrinsic risk of material errors/omissions/problems occurring in an area disregarding the controls set up to mitigate the risk. The control risk component is an evaluation of the adequacy and effectiveness of controls in place to offset the gross risks in a particular area.

- **Judgement**

This factor takes into account relevant knowledge of the subject area, known system changes, staffing and approved policies and procedures that exist in a particular area.

These factors are interdependent e.g. even though an area has a high gross risk, if controls in place are well designed and applied, there is less concern from an audit perspective.

The planning process also takes into account specific requests and audits that have not been performed previously or areas that may not have been reviewed for some time.

5.2.2 Plan Approval

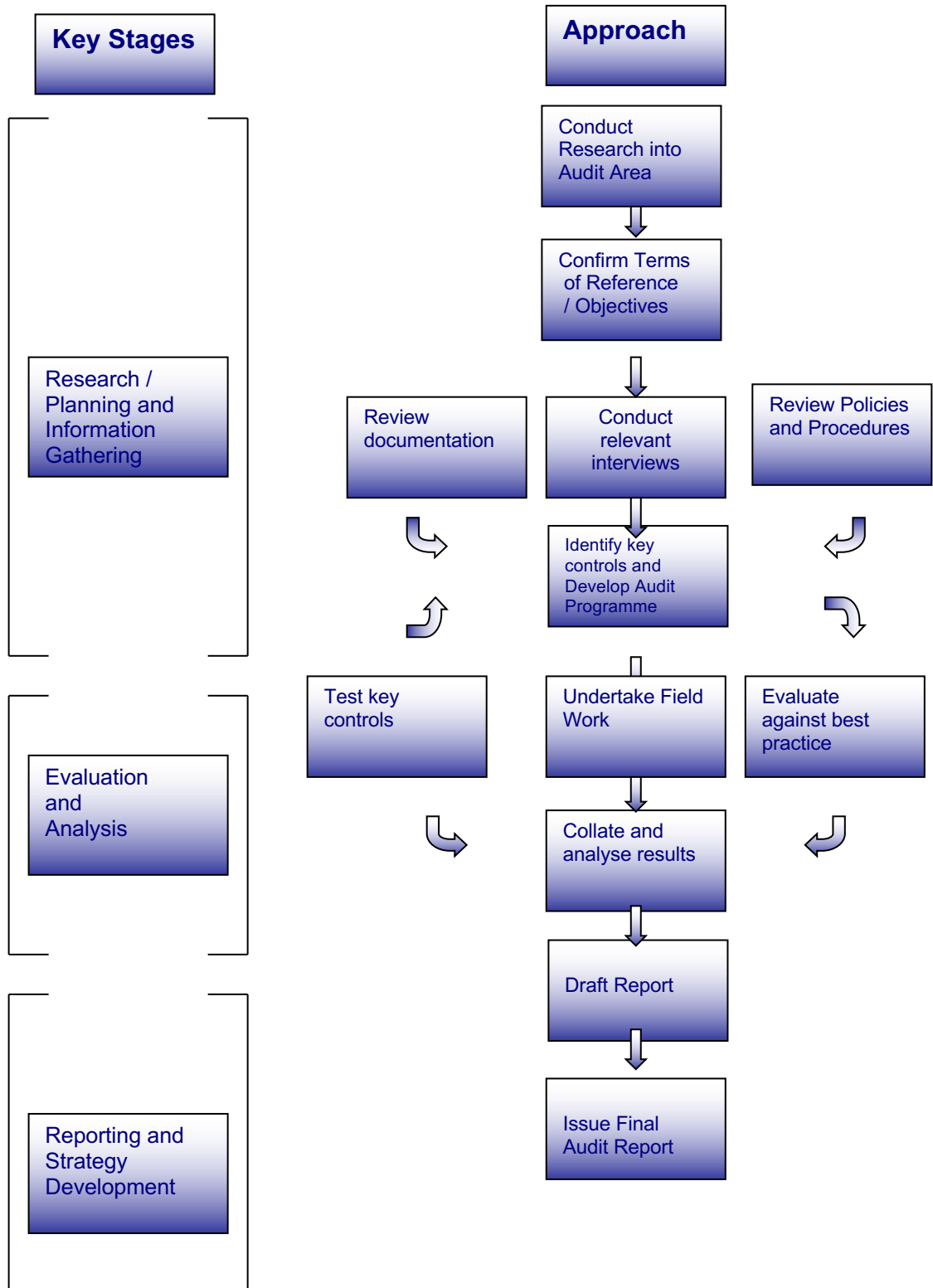
After discussing the plans with appropriate personnel, final approval of the audit plan is obtained from Management and the Finance and Audit Committee. Once the work plans are approved, specification of the nature and extent of the work that is to be carried out is determined through the production of "Terms of Reference" documents.

5.2.3 Plan Review and Update

Each year, Internal Audit in consultation with management will review the current audit work plan and prepare the next annual work plan determining high priority risk areas along with medium and low risk areas where assurance is required and/or value can be added.

5.3 Audit Programme Delivery

Specific audits will be undertaken in accordance with the agreed audit plan. The key steps and audit approach in conducting an audit are highlighted below:



5.4 Audit Reporting and Documentation

5.4.1 Audit Reporting

Internal Audit will report to Management and the Finance and Audit Committee on:

- Audits completed
- Progress in implementing Internal Audit work plans, and
- The status of the implementation of agreed audit recommendations.

5.4.2 Documentation

Audit review working papers will support the conclusions drawn in the associated report. Although the amount of documentation needed varies among audits, the working papers will provide evidence of all work that has been completed.

5.5 Audit Performance

Internal Audit's performance encompasses the following responsibilities:

- To ensure all work complies with internationally recognised standards
- To maximise use of resources,
- To minimise costs
- To supplement resources where necessary with professional expertise on an as required basis.

Internal Audit departments must meet the objectives of the Institute of Internal Auditor's Quality Assessment Standards. The Institute of Internal Auditors Standards requires Internal Audit to have an external quality assessment that evaluates conformance with the International Standards for the Professional Practice of Internal Auditing (Standards). External Assessments should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organisation. The external assessment provides a benefit to the organisation by building stakeholder confidence by documenting management's commitment to quality and leading practices, as well as sound professionalism. The external assessment also provides evidence to Management, the Finance and Audit Committee and other stakeholders that the Internal Audit function appropriately reviews the organisation's internal control environment and activities, governance, ethics, and risk management practices in an appropriate manner.

Appendix 1 IIA standards - Definition of internal auditing

Internal Auditing is 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.

Summary of General and Specific Standards for the Professional Practice of Internal Auditing

- **100 Independence** - Internal auditors should be independent of the activities they audit.
 - **110 Organisational status** – The Organisational status of the internal auditing department should be sufficient to permit the accomplishment of its audit responsibilities.
 - **120 Objectivity** – Internal auditors should be objective in performing audits.

- **200 Professional proficiency** - Internal audits should be performed with proficiency and due professional care.
 - **210 Staffing** – The Director of Internal Audit should ensure that the technical proficiency and educational background of internal auditors are appropriate for the audits to be performed.
 - **220 Knowledge, skills, and disciplines** – The internal auditing department should possess or should obtain the knowledge, skills, and disciplines needed to carry out its audit responsibilities.
 - **230 Supervision** – The Director of Internal Audit should ensure that internal audits are properly supervised.
 - **240 Compliance with standards of conduct** – Internal auditors should comply with professional standards of conduct.
 - **250 Knowledge, skills, and disciplines** – Internal auditors should possess the knowledge, skills, and disciplines essential to the performance of internal audits.
 - **260 Human relations and communications** – Internal auditors should be skilled in dealing with people and in communicating effectively.
 - **270 Continuing Education** – Internal auditors should maintain their technical competence through continuing education.
 - **280 Due professional care** – Internal auditors should exercise due professional care in performing internal audits.

- **300 Scope of work** - The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the Organisation's system of internal control and the quality of performance in carrying out assigned responsibilities.

- **310 Reliability and integrity of information** – Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **320 Compliance with policies, plans, procedures, laws, regulations, and contracts** – Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, regulations, and contracts which could have a significant impact on operations and reports, and should determine whether the Organisation is in compliance.
- **330 Safeguarding of assets** – Internal auditors should review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **340 Economical and efficient use of resources** – Internal auditors should appraise the economy and efficiency with which resources are employed.
- **350 Accomplishment of established objectives and goals for operations or programs** – Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

- **400 Performance of audit work** - Audit work should include planning the audit, examining and evaluating information, communicating results, and following up.
 - **410 Planning the audit** – Internal auditors should plan each audit.
 - **420 Examining and evaluating information** – Internal auditors should collect, analyse, interpret, and document information to support audit results.
 - **430 Communicating results** – Internal auditors should report the results of their audit work.
 - **440 Following Up** – Internal auditors should follow up to ascertain that appropriate action is taken on reported audit findings.

- **500 Management of the internal auditing department** – The Director of Internal Audit should properly manage the internal auditing department.
 - **510 Purpose, authority, and responsibility** – The Director of Internal Audit should have a statement of purpose, authority, and responsibility for the internal auditing department.
 - **520 Planning** – The Director of Internal Audit should establish plans to carry out the responsibilities of the internal auditing department.
 - **530 Policies and procedures** – The Director of Internal Audit should provide written policies and procedures to guide the audit staff.
 - **540 Personnel management and development** – The Director of Internal Audit should establish a program for selecting and developing the human resources of the internal auditing department.
 - **550 External auditors** – The Director of Internal Audit should coordinate internal and external audit efforts.

- **560 Quality assurance** – The Director of Internal Audit should establish and maintain a quality assurance program to evaluate the operations of the internal auditing department.