



Internal Audit

A/3.2.1

Purpose

This document outlines the Synod Office operating procedures for internal audit. It is part of the Internal Audit Management Framework. The aim of the procedures is to provide for consistency and continuity in the standards of acceptable performance, and for the effective coordination of internal audit activities.

Staff designated to perform internal audits, including subject matter experts who are co-sourced from other functional areas of the Synod Office or those externally outsourced must adhere to this policy and procedures to adopt consistency, cohesive guidelines and acceptable performance standard.

The following provisions are governed by the approved Synod Internal Audit Policy (A/3.2) which conforms with the International Standard for the Professional Practice of Internal Audit as promulgated by the Institute of Internal Auditors (IIA-Australia).

Scope

As per the Internal Audit Charter, approved by the Audit and Risk Committee (ARC), the Synod Office's internal audit activity covers all entities under The Uniting Church in Australia, Queensland Synod except for the UnitingCare Queensland and Wesley Mission Queensland which both operate specialised internal audit activities.

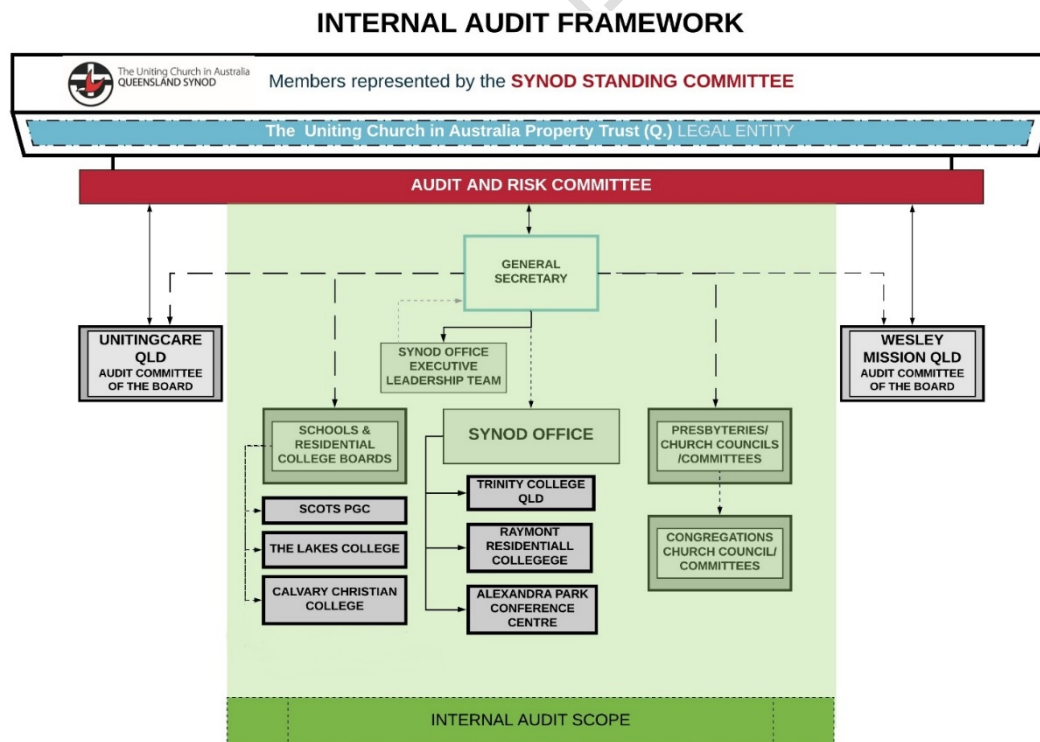


Figure 1
Highlighted in green is the internal audit activity within the jurisdiction of the Synod Office.



Structure of Internal Audit

The **Chief Audit Executive (CAE)** provides leadership to the Internal Audit activity. In the Synod Office, the Executive Director Risk is concurrently appointed to the CAE role.

The **Internal Audit and Compliance Officer** operates the internal audit function under the direction of the CAE, with the Manager Risk and Compliance supervising administrative matters pertaining to internal audit activities.

Additionally, **subject matter experts (SMEs)** within the Synod Office and external consultants may be engaged to conduct specialised internal audits under a co-sourcing or outsourcing arrangement, respectively to meet service requirements.

The Manager **Risk and Compliance** is responsible for the administrative supervision of internal auditors and for the review of work papers to ensure quality control and assurance, except when the audit scope falls under the purview of Manager Risk and Compliance. In this case, to avoid any conflict of interest, the mandatory review of work papers will revert to the CAE.

Snapshot of the Internal Audit Operation

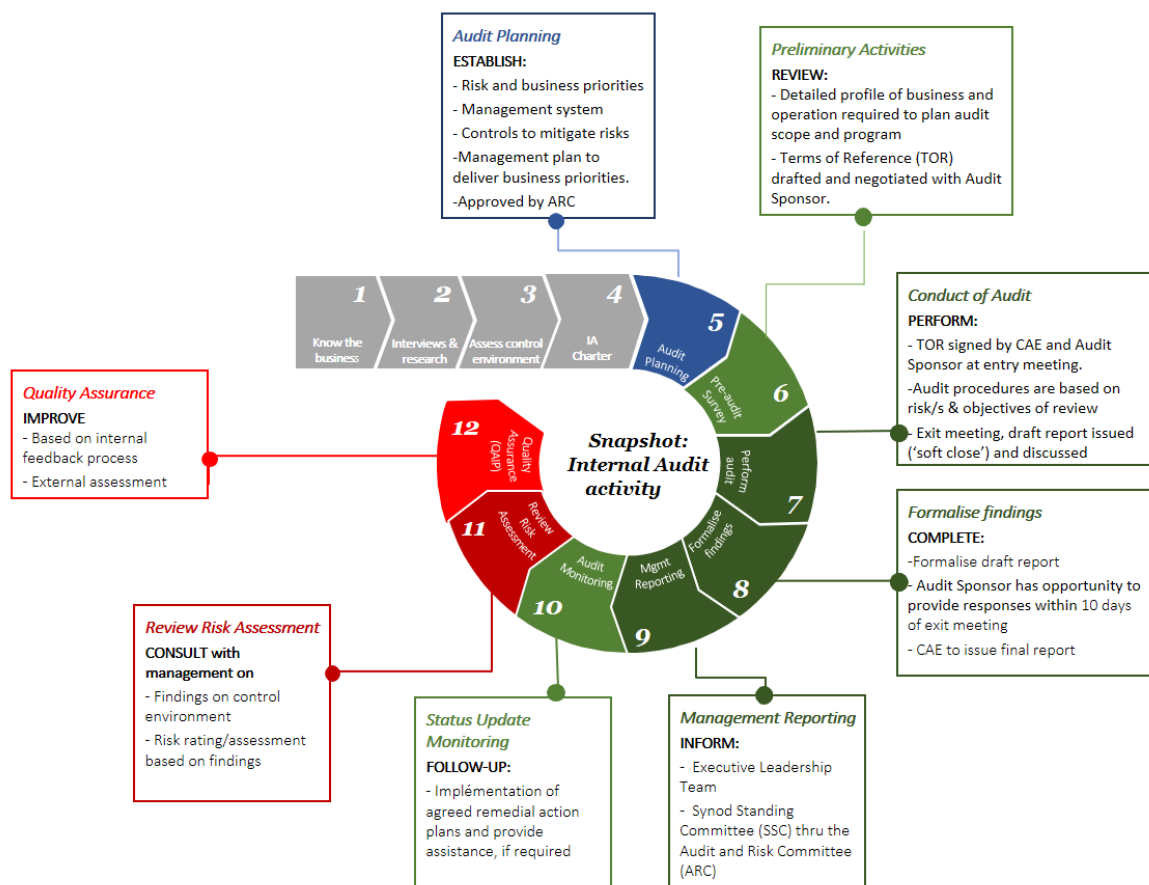


Figure 2
Activities highlighted in full colour are discussed in detail in succeeding sections.



Audit Planning

1. Strategic internal audit plan

- 1.1. The CAE shall consult with members of the Senior Leadership Team (SLT) and the Executive Leadership Team (ELT) to develop the **strategic internal audit plan**, ensuring that risks and audit priorities align with the organisational strategic direction, goals and objectives.
 - 1.1.1. Members of the Synod Office Senior Leadership Team, as front-line risk owners to provide insightful inputs into risks relevant to consider in the framing of the strategic internal audit plan.
 - 1.1.2. The Synod Office Executive Leadership Team (ELT) to endorse priority projects for the Synod Office
 - 1.1.3. Strategic Mission and relevant Presbyteries to be consulted in the identification and prioritisation of internal audit projects for presbyteries and congregations.
 - 1.1.4. The Schools and Residential Colleges Commission Executive Officer to be consulted in the identification and prioritisation of internal audit projects for schools and residential colleges owned by The Uniting Church in Australia Property Trust (Q.).
 - 1.1.5. For the Synod Office, a review of the Corporate Risk Register and operational Risk Register for individual business areas shall be made.
 - 1.1.5.1. Through assurance mapping, the CAE shall analyse risks against controls to identify priority projects.
- 1.2. The strategic internal audit plan (TOO-xx-xx1) shall be designed to continue over a rolling period of 3 years.
- 1.3. The Strategic Internal Audit Plan must be reviewed annually to ensure alignment to business requirements and priorities, and to validate the direction of the internal audit activity.
- 1.4. The ARC has the Synod-wide oversight of risk management and the delegation to approve the strategic internal audit plan on behalf of the Synod Standing Committee (SSC).

2. Operational Plan

- 2.1. The Internal Audit and Compliance Officer will develop a draft rolling 18-monthly Operational Internal Audit Plan (**TOO-A/3.2.1.1**) as part of the strategic internal audit plan and according to the topics identified by the CAE.
- 2.2. An adequate consultation with key stakeholders must take place to develop appropriate contexts for planned internal audits.
- 2.3. Minimum information for each audit is to include:
 - 2.3.1. **Subject** refers to the audit topic
 - 2.3.2. **Business area/function** refers to the business group or team responsible for the *Subject*
 - 2.3.3. **Type of audit** may either be an *assurance* or *consulting*
 - 2.3.4. **Review period** is the inclusive audit period negotiated with relevant the line manager of the business area to minimise business interruption
 - 2.3.5. **Available risks** and **risk ratings** from the relevant business area/function



2.3.6. **Requirement** which relates to the purpose or rationale to undertake an audit

2.3.7. **Preliminary Audit scope** which is to set the coverage and boundaries of the audit

2.4. The Synod Executive Leadership Team will endorse the Internal Audit Operational Plan.

2.5. The ARC will approve the Internal Audit Operational Plan, and any significant modifications to the Internal Audit Operational Plan.

Internal Audit Engagement

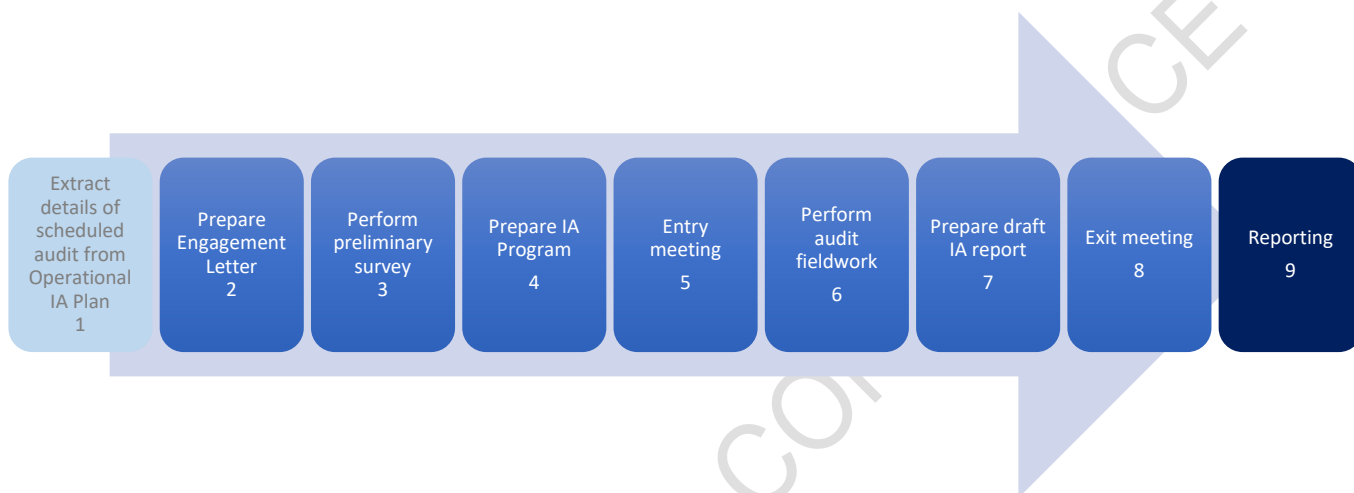


Figure 3:
Overview of Internal Audit Engagement Process

1. The **Operational Internal Audit Plan** (*'IA Plan'*) provides an outline of forward audits for the next 18 months.
2. **Engagement Letter**
 - 2.1. Purposes of engagement letter
 - 2.1.1. To formally alert (with adequate notice to) the Audit Sponsor of an upcoming review so that management can plan to minimise, if not avoid, business disruption
 - 2.1.2. To request updates in the relevant information within the IA Plan, required for developing the Internal Audit Program (*'IA Program'*)
 - 2.1.3. To advise of the Internal Audit Terms of Reference
 - 2.1.4. To confirm key dates (entry meeting, commencement of audit, exit meeting and submission of management reply/ies, if any)
 - 2.2. The engagement letter will be prepared by the auditor in-charge and sent to the Audit Sponsor at least 1 month in advance of the scheduled audit.
 - 2.3. A template of the engagement letter (**TOO-A/3.2.1.2**) is available as guide.



3. Preliminary survey

- 3.1. A preliminary survey is necessary to ensure that the information in the IA Plan remains relevant to the current control environment, organisational structure and risk profile.
- 3.2. This survey must be conducted at least 3 weeks before the audit to allow for the IA Program to be prepared. (Refer to the succeeding section for discussions on the *IA Program*.)
- 3.3. The preliminary survey may be done by desktop review or interview/s of key staff.

4. Internal Audit Program

- 4.1. The Internal Audit Program (*'IA Program'*) provides a formal structure for processes and procedures to be followed in conducting the audit.
 - 4.1.1. An effective IA Program incorporates an audit trail with proper cross-references between evidences and audit findings to develop conclusions.
 - 4.1.2. At the end of an engagement, the IA Program (**TOO-A/3.2.1.3**) serves as *coversheet* for the work papers as it summarises the audit procedures followed during a specific audit engagement.

4.2. The Internal Audit Program is reviewed for quality by the Manager, Risk and Compliance.

4.3. Process

- 4.3.1. From the Operational IA Plan, derive the name of the business area/function, topic, risk, risk rating and type of audit.
- 4.3.2. Assign a unique Reference ID using the format: YYYY-IAXX_Z_Name of Audit, where;

YYYY is year that the audit commenced

IA is constant and stands for Internal Audit and **XX** reference number of audit against the Operational IA Plan

Z is either *Assurance* or *Consulting*

4.3.3. Update succeeding fields, as follows:

- 4.3.3.1. *Reference materials* refers to the legislation, regulations, standards, policy, procedures, memorandum and all other relevant reference materials used as basis in conducting the audit.
- 4.3.3.2. *Documents reviewed* refers to sources of information to validate and/or substantiate findings.
- 4.3.3.3. *Audit Objectives* refers to what the audit aims to accomplish and must be approved by the CAE).
- 4.3.3.4. *Audit Risk* refers to threat/s to fulfilling the audit objectives and required to be discussed with the Manager, Risk and Compliance.
- 4.3.3.5. *Risk Mitigation Strategy/ies* refers to audit processes and preventive strategies to be applied during the review to minimise operational impact to internal auditing; must be endorsed by the Manager Risk and Compliance and approved by the CAE.
- 4.3.3.6. *Procedures* are tasks or steps required to achieve the audit objectives, inclusive of validation and testing methodologies.

4.3.4. Submit the draft Internal Audit Program to the Manager, Risk and Compliance for quality control and to the Chief Audit Executive for approval.



5. Scoping meeting

- 5.1. The purpose of the meeting is to discuss all expectations and any issue or concern pertaining to the audit.
- 5.1.1. Current developments on topic.
- 5.1.2. Internal Audit Terms of Reference (**TOO-A/3.2.1.4**).
- 5.1.3. Relevant audit objectives, period to be audited, and the audit approach and process.
- 5.1.4. Request commitment from the auditee for support during the audit and favourable response to audit requests.
- 5.1.5. Confirmation of areas of risk or concern including areas which the Audit Sponsor would like reviewed.
- 5.1.6. Management plans, objectives, and other documents that may be relevant to the audit.
- 5.1.7. Access to personnel and related records and documents.
- 5.1.8. Outstanding audit findings from previous audits and the status of corrective actions, if applicable.
- 5.2. The Letter of Engagement states the pre-agreed date of entry meeting. Any change to the details of the entry meeting should be reflected in the Internal Audit Program.
- 5.3. Process
- 5.3.1. One month before the engagement, the auditor-in-charge will organise the entry meeting with the Audit Sponsor. If circumstances require, the CAE may be invited to entry meetings.
- 5.3.2. The auditor-in-charge must be familiar with the IA Program and the Terms of Reference prior to holding the entry meeting.
- 5.3.3. The auditor-in-charge will hold the entry meeting ensuring that all client expectations and enquiries have been dealt with.
- Offer assurance that all efforts will be exerted to minimise impact on business operations.
 - Request for support and commitment from the Audit Sponsor for access to personnel and related records and for favourable response to audit requests.

6. Internal audit fieldwork

- 6.1. Internal audit will be conducted in accordance with the Internal Audit Charter.
- 6.1.1. The audit fieldwork, according to the IA Program, must involve appropriate procedures and sampling methodologies to validate audit findings. Techniques for collecting evidence and testing controls would include interviewing, recalculation, vouching, tracing, observation, inspection, scanning and various analytical procedures (e.g., ratio, trend analysis, etc.)¹.
- 6.1.2. Any limitation to the internal auditor's access will be raised to the Audit Sponsor for resolution, and if unresolved, to the CAE for appropriate action.

¹ The International Standards for the Professional Practice of Internal Auditing state that "Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives".



- 6.2. Audit procedures and tasks are to be supported by audit work papers in the form of electronic files (**TOO-A/3.2.1.5**) and paper-based records which must be detailed and cross-referenced to respective procedures in the Internal Audit Program. Work papers provide evidence of findings or conclusions which must be recorded therein.
- 6.3. Deviation from the Internal Audit Program may be necessary particularly if a material or unusual transaction has surfaced during the review. If which case, any deviation should be explained and well-recorded, supported and documented in the accompanying IA Program.

Where a significant finding emerges, the auditor-in-charge will carefully validate the veracity of information and once convinced that the conclusion is accurate, notify the CAE for appropriate action.

- 6.4. A healthy and open conversation throughout the audit with the Audit Sponsor will ensure that findings and recommendations are validated and that the Audit Sponsor takes ownership of the required actions to be carried out within reasonable timeframe.

7. Interim 'draft' Internal Audit Report

- 7.1. A written report will be prepared by the auditor-in-charge and issued by the CAE following the conclusion of each internal audit engagement.

7.1.1. The written draft report will be based on well-supported and verifiable audit findings and recommendations.

7.1.2. Rating Methodology

- 7.1.2.1. The rating methodology applicable to the **overall audit outcome** will subscribe to the IIA Practice Guide and follow the *control-effectiveness* rating structure as defined in the risk management framework.

Rating	Description
Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Good	A few specific control weaknesses were noted; generally, however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Needs improvement	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Weak	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.



7.1.2.1. Individual findings will be assessed according to risk exposure of the entity

Rating	Description
Extreme	The lack of controls or material weakness observed requires immediate action by Executive Leadership Team (ELT); entity management or governing body to bring it to an acceptable level of governance standard. The risks are not being appropriately managed and the business objectives of the process may not be met.
High	There are deficiencies or significant weaknesses observed which require issues to be actively managed by ELT; entity management or governing body to bring it to an acceptable level of governance standard. The process is at risk of not being able to meet the intended business objective.
Medium	The controls in place are generally adequate and appropriate, weaknesses and/or deficiencies have been identified or controls have not been operating effectively. Requires action by business level management to address the issues and identify the root cause.
Low	Controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.

7.1.3. In providing professional judgement, internal auditors must avoid bias and be mindful of negative as well as positive findings.

7.2. Process

7.2.1. In general, the auditor in-charge prepares the draft report.

7.2.2. The Manager, Risk and Compliance reviews the draft report against the work papers for quality control and endorses it to the CAE once contents are contextually appropriate and the report is in a proper form.

7.2.3. The CAE reviews and approves the report for discussion with the Audit Sponsor.

7.2.4. The draft report will be provided to the Audit Sponsor at the exit meeting. (Refer to Section 8 for 'Exit meeting'.)

7.2.5. The auditor-in-charge will update the IA Program, if necessary, to reflect the actual date of exit meeting.

7.2.6. The Audit Sponsor will provide management response to individual findings and recommendations.

7.2.6.1. The management response shall state if the recommendations are accepted and what actions will be taken to address the concerns raised, by whom and by when.

7.2.6.2. If management disagrees with a formal recommendation, the reason for the disagreement will be provided by the Audit Sponsor and will be included in the final audit report together with any Internal Audit response.

7.2.6.3. Management responses will be submitted within 2 weeks of the exit discussion. (The audit report may be issued without management response in the event of undue management delays in responding.)

7.3. All versions of the draft internal audit report will be controlled and all communications between management and internal audit will form part of the work paper for audit trail.



8. Exit meeting

- 8.1. The purpose of the exit meeting is to advise the Audit Sponsor that the audit engagement has been substantially complete.
- 8.1.1. The exit meeting shall be a two-way conversation where the auditor-in-charge advises the Audit Sponsor of the preliminary findings and recommendations and the Audit Sponsor provides views to confirm or clarify misunderstandings or misinterpretations, if any, on the findings and recommendations.
- 8.1.2. Management agreement is not always necessary however the auditor-in-charge must seek to reach an agreement with the Audit Sponsor
- to sustain existing working relationship with the Audit Sponsor,
 - to maintain the quality and protect the image of internal audit and finally,
 - to obtain an audit engagement sign-off from the Audit Sponsor.
- 8.1.3. If remedial actions are required to implement the recommendation, the Audit Sponsor will take ownership of actions according to some reasonable pre-agreed timeframes.
- 8.2. The exit meeting will be recorded in the IA Program.

9. Reporting

- 9.1. The Internal Audit Report will be finalised within 5 working days of the receipt of management responses. Refer to **TOO-A/3.2.1.6** for the Internal Audit Report template.
- 9.2. A final version of the Internal Audit report requires the following sign-off:
- 9.2.1. Internal Auditor (Designee/in-charge of audit engagement, if applicable)
- 9.2.2. Manager, Risk and Compliance (Quality control)
- 9.2.3. Chief Audit Executive (Owner of internal audit report)
- 9.2.4. Audit Sponsor (Responsible for business area and Owner of management responses and remedial action plan)
- 9.3. A hard copy (signed version) of the final Internal Audit Report will be retained with the work papers. The electronic version of the work papers shall be stored in a controlled environment.
- 9.4. The final Internal Audit Report will be distributed to the Audit Sponsor, the Executive Leadership Team (ELT), and the ARC in a timely manner.

Monitoring

1. Progress of Internal Audit Recommendations

- 1.1. Internal Audit will make a formal follow-up on the implementation of audit recommendations for reporting to ARC.
- 1.2. A timely follow-up must be made when the agreed timeframe to implement the recommendation or corrective/remedial action falls due and if there is delay, periodically until the action is completed.
- 1.3. All outstanding findings will remain in an open issue file until cleared. The appropriate monitoring tool is appended as **TOO-A/3.2.1.7**).



2. Progress of Internal Audit Activity

- 2.1. A report on the progress of Internal Audit Activity (**TOO-A/3.2.1.8**) will be submitted to the ARC to monitor the progress of audit projects.
- 2.2. Significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by ELT and the ARC will be included into this report.
- 2.3. Any adjustment to the Operational IA Plan requires approval by the ARC.

Risk Assessment

The outcomes of internal audits will inform the risk assessment of the risk management process, if applicable.

Quality Assurance and Improvement Program

1. Conformance with the Standards

- 1.1. The Quality Assurance and Improvement Program (QAIP) of the internal audit activity will conform to the Definition of the Internal Auditing and the Professional Practice of Internal Auditing Standards promulgated by the Institute of Internal Auditors-Australia.
- 1.2. The program assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

2. Planning for quality improvement

- 2.1. The CAE will consider the continuing professional education of internal auditors in developing the strategic internal audit plan.

3. Assessment process pertaining to audit engagements

- 3.1. Every aspect of the Internal audit activity is subject to quality control.
- 3.2. The Manager, Risk and Compliance is delegated the responsibility for quality control and assurance for the internal audit activity. If Risk and Compliance area is the subject of audit, then responsibility will revert to the CAE.

3.2.1. Audit work papers

3.2.1.1. The audit work papers will be reviewed to ensure that audit objectives have been met and work is of adequate quality before the draft report is provided to the Audit Sponsor at exit meeting.

3.2.1.2. The review should include, but is not limited to:

- evaluation of audit objectives, scope, and conclusions;
- compliance with Internal Audit policies and procedures;
- check of workpaper cross-referencing;
- evaluation of audit sampling and validation methodologies;
- audit assessments and conclusions in terms of context, materiality and criticality.

3.2.1.3. The results of review will be reflected into the IA Program against signature by the Reviewer.



- 3.3. Within two weeks of receiving the Internal Audit Report, the Audit Sponsor and key staff of audited business area will be issued with a client feedback form (TOO-A/3.2.1.9) to provide the CAE with feedback on the quality of service provided by the internal audit activity.
- 3.3.1. As a protocol, the CAE receives the survey returns in electronic format.
- 3.3.2. The response of the CAE depends on the nature of feedback received. In the minimum, the internal auditor in-charge of audit engagement shall be provided an electronic copy of the client feedback.
- 3.3.3. If a negative feedback is received, the CAE will hold appropriate discussions to resolve issues.
- 3.4. The outcomes of quality control and assurance will be considered in evaluating internal audit staff performance (including guest auditors’).
- 4. External assessment**
- 4.1. An external review of the Quality Assurance and Improvement Program will be conducted at least once every five years by an independent assessor according to the Standards.
- 4.2. The external review may be conducted by other (independent) internal audit activity within the Queensland Synod subject to the terms and conditions approved by the Audit Committee.
- 5. Communication**
- 5.1. The CAE will communicate to senior management and the ARC on the internal audit activity’s quality assurance and improvement program, especially the collective outcomes of the post-audit surveys and any other internal assessments at least annually.
- 6. Confidentiality and security of audit records**
- 6.1. Internal Audit records and documents shall be controlled electronically and in hard copy to be kept under lock and key.
- 6.2. All access to audit reports and audit work papers are subject to the expressed approval by the CAE.

Revisions

Document number		A/3.2.1			
Version	Approval date	Approved by	Effective date	Document owner	Document contact
1.0	19.06.2018	ED Risk/Chief Audit Executive	25.06.2018	ED Risk/ Chief Audit Executive	Internal Audit and Compliance Officer
Next scheduled review		30.06.2020			