

22 June, 2017

PGPA Act Review

Review Secretariat

Department of Finance

One Canberra Avenue

FORREST, ACT 2609

Email: PGPAActReview@finance.gov.au

Dear Review Team

Re: Review of Public Governance, Performance and Accountability Act 2013 (PGPA Act) and Rule

As a practitioner of Internal Audit within the Federal Government I am making this submission in relation to the Commonwealth Department of Finance's Consultation Draft of the *Public Governance, Performance and Accountability Act 2013 and Rule* (PGPA Act). I am making this submission in my personal capacity as an experienced practitioner of internal audit within Federal Government and should not be seen as reflective of the views of organisations I am connected with.

In compiling this submission I have conferred with key members of the profession, including those in the position of Chief Audit Executives within Federal Government. In addition I have consulted professional guidance both nationally and internationally and also considered the "*International Framework: Good Governance in the Public Sector*" as published by the international Federation of Accountants (IFAC) in partnership with the Chartered Institute of Public Finance and Accounting (CIPFA). This framework is seen as the benchmark for good governance in the public sector and included Ian McPhee, who was the Australian Auditor General at the time of publication, as part of its International Reference Group. I have also consulted international practices in governance models, in particular governance models in the public sector, as well as domestic legislation, regulation and practices.

As an internal audit professional, I am fully supportive of the recommendations to improve governance practices within the Commonwealth. I believe that the recommendations can be further expanded and adjusted so as to assist in achieving their goal of enhancing the contribution of the public sector to the prosperity of our nation.

Submission

Performance framework

1. Recommendation 8 should be clarified by stating that the Auditing and Assurance Standards Board should further develop an *external* auditing standard for performance reporting as their standards relate specifically to that profession. Internal Audit already has an appropriate standard for auditing organisational performance management and accountability as part of the governance process in its International Professional Practices Framework (IPPF). This is reflected in Standard 2110 of the IPPF Standards and the Implementation Guide linked to it. This guidance is further expanded in the IIA's Global Practice Guide "*Assessing Organisational Governance in the Public Sector*"

Managing and engaging with risk

2. To assist in the improvement of risk management and engagement practices I suggest a further recommendation be added to this section recommending that to ensure risk management frameworks are complied with and that they remain effective, they be subject to review by internal audit at least annually with a comprehensive review of its appropriateness, effectiveness and adequacy being performed at least every three years. This is similar to what is detailed in the Prudential Standard CPS 220 on Risk Management and would assist in providing assurance to the accountable authority that the risk management framework remains fit for purpose and is working as intended.

Audit committees

3. For Recommendation 15, unfortunately I believe that the wording of the recommendation may not accurately reflect the intent of the recommendation. The term "official" within a commonwealth entity also includes non-executive board members of corporate entities within the Commonwealth. This recommendation as it is presently worded would therefore have the impact of board members not being allowed to be members of their own organisation's board audit committee as well as disallowing them from sitting on unrelated audit committees within the Commonwealth which many of them do. I therefore suggest that the wording of this recommendation be revisited so as to ensure it accurately reflects the intent especially as it relates to those who are independent non-executive Board members.
4. For recommendation 21, I suggest that the Institute of Internal Auditors (IIA) be included in the examples of professional bodies as the IIA also publishes guidance for audit committees in the public and private sectors both nationally and internationally. Examples of this guidance includes the nationally distributed guidance that the IIA published in partnership with the AICD and AUASB "*Audit Committees – A Guide to Good Practice*" and the international guidance the IIA published "*Independent Audit Committees in Public Sector Organisations*". This guidance can also assist the Department of Finance in developing relevant learning programs for Audit Committee members.
5. A key component of effective audit committees is an assessment of the performance of the audit committee both as a whole and of its members. I therefore suggest that an additional recommendation be added that audit committee performance and the performance of its members should be assessed on a set periodic basis as established in the audit committee

charter. This performance is usually assessed by reviewing the audit committee's compliance with its formal charter, the level of participation of audit committee members and committee's ability to drive value-added activities and outcomes that are congruent with the organisation's vision, statutory objectives, and strategies.

Technical and other matters

6. There are numerous examples both locally and internationally reflecting that internal audit is a key component of effective governance. This has resulted in numerous situations where the requirement for organisations to have an effective internal audit function is included in legislation, regulations and governance codes. With this as a backdrop, it is strongly advisable that a recommendation be added stating that an internal audit function, under the oversight of the Audit Committee and delivered in compliance with the International Professional Practices Framework, be mandated in the Public Governance, Performance and Accountability Act 2013 (PGPA Act).
7. To assist in the delivery of the above requirement a further recommendation should be added recommending that the Department of Finance (in conjunction with the Institute of Internal Auditors - Australia) should develop a Resource Management Guide on Internal Audit. This could follow a revised version of the ANAO's Better Practice Guide, which was widely consulted on and will advise on how an internal audit function, be it in-house, co-sourced or out-sourced, can be delivered in compliance with the International Professional Practices Framework in addition to advising on appropriate minimum qualifications for Heads of Internal Audit.

I strongly believe that the above additions to the circulated recommendations that have already been designed will assist the review in achieving its objective of enhancing public sector productivity, governance, performance and accountability arrangements covered by the PGPA Act.

Should you require further information please contact me.

Sincerely

Gregory D Rimmer-Hollyman PFIIA CIA QIAL GAICD

I am a highly qualified and experienced internal audit professional with extensive involvement at a thought leadership level within the global internal audit profession. In addition to being a chief audit executive within Australia Federal Government, I have also held leadership positions within the internal audit profession both locally and internationally. This has included being chairman of the Institute of Internal Auditors' Global Public Sector Committee that provided professional advice for practitioners and stakeholders across the world.