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Dear Mr Rasman,

Internal Audit Better Practice Guide for Financial Services Principles and Recommendations Australia (Guide)

Who we are

Governance Institute of Australia (Governance Institute) is the only independent professional association with a sole focus on whole-of-organisation governance. Our education, support and networking opportunities for directors, company secretaries, governance professionals and risk managers are unrivalled.

Our members have primary responsibility for developing and implementing governance frameworks in public listed, unlisted and private companies, as well as not-for-profit organisations and the public sector. They have a thorough working knowledge of the operations of the markets and the needs of investors. Our active membership base of more than 7,500 chartered secretaries, governance advisers and risk managers ensures that Governance Institute is at the cutting edge of knowledge of issues and support of sound practice in the continuous evolution of governance and risk management. We regularly contribute to the formation of public policy through our interactions with Treasury (Markets Group), ASIC, APRA, ACCC, ASX, ACNC and the ATO. Like the Institute of Internal Auditors, we are a founding member of the ASX Corporate Governance Council.

Governance Institute thanks the Institute for the opportunity to provide comments on the draft Guide and congratulates it on this initiative.

This letter reflects input from our members who have considered the draft. Their comments are outlined below:

- **Principle 1**
 - While Principle 1 provides that the role of internal audit is 'to assist the board and management to protect the assets, reputation and sustainability of the organisation', the accompanying Recommendations do not explicitly discuss how this works practically. This Principle might benefit from some introductory commentary amplifying the Principle, similar to that in each of the Principles in the 4th edition of the *Corporate Governance Principles and Recommendations* (Principles and Recommendations). Each of the Principles would benefit from similar introductory commentary.
 - The current Recommendation 1.5 talks about a risk-based approach to the audit universe and the internal audit plan. Feedback from our members is that the document would benefit from more explanation and discussion of assessing high-risk areas. In addition to a focus on risk when determining the audit universe and

the plan, there should be a focus on areas for improvement. The comment about a greater focus on risk applies to the rest of the document.

- **Principle 2**
 - Feedback from our members is that this Principle should address the material currently contained in Principle 3. While the matters outlined in the current Principle 2 - capacity, skill, capability and experience of the team, adequacy of resourcing, independence and tenure, the charter and avoiding linking remuneration to short-term organisational performance - are all very important, our members consider that this Principle should focus on providing assurance which adds value.
 - The current Recommendation 2.1 should remain in the document but should not necessarily be the first Recommendation under the Principle.
 - The current Recommendation 2.2 should also address appropriate resourcing in terms of headcount and systems, particularly given the references to the use of data analytics in Principle 4. In addition, this Recommendation could also address the organisational resourcing required where the function is outsourced, given that many organisations either partially or fully outsource the function. The document would also benefit from some additional commentary around outsourcing for example, benefits such as providing additional support for the organisation or assisting in maintaining the independence of the function.
 - Recommendation 2.5 – the matters outlined in this Recommendation should also be reflected in the Audit Committee’s charter. Our members also observed that in their experience internal audit charters are frequently not publicly available.
- **Principle 3**
 - As noted above this material on providing assurance which adds value would be better as the second Principle given its importance.
- **Principle 4**
 - Recommendation 4.8 - our members consider that the external assessment of internal audit could be carried out more regularly than at five-yearly intervals.
- **Principle 5**
 - Given the Principle talks about internal audit driving positive change by providing timely, accurate and insightful information to be used as a basis for making risk-focused decisions, this Principle would be improved by some discussion of the role internal audit can play in training and improvement.
- **General**
 - An issue to consider is how the document will assist organisations to create an internal audit function or process that meets what is needed in 2020. This would assist in giving the document more of a ‘future focus’ and a greater sense of the financial services sector having absorbed the lessons of the Financial Services Royal Commission and APRA’s *Prudential Inquiry into Commonwealth Bank of Australia*. Text boxes highlighting some of the lessons from these inquiries might be useful additions.
 - The Drafting Committee may wish to consider cross references to the Principles and Recommendations, particularly Recommendations 4.1 and 7.3.
 - The document would also benefit from more discussion of internal audit’s role as a proactive tool for organisations.
 - Our members also suggest the project team consider whether there needs to be a specific acknowledgement of the impact of COVID-19, noting that the draft was prepared and issued in advance of the spread of the pandemic.
 - When doing a final revision of the document we suggest the reviewers consider the use of ‘should’ as opposed to ‘may wish to consider’ throughout the document to ensure that ‘should’ is appropriate in the circumstances.
 - Drafting points:
 - Footnote 11 – this legislation has now passed through Parliament.
 - Recommendation 5.4 – the actual text of the Recommendation should be in bold.

- The document will need to be updated for the FAR legislation once it is finalised.

If you have any questions in connection with this letter, please contact Catherine Maxwell, General Manager, Policy and Advocacy.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Motto', written in a cursive style.

Megan Motto
CEO