

The Auditor-General
Audit Report No.14 2000–2001
Performance Audit

Benchmarking the Internal Audit Function

Australian National Audit Office

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Canberra ACT
26 October 2000

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in accordance with the authority contained in Section 18 of the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Benchmarking the Internal Audit Function*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—
<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Summary and Recommendations

Summary

1. In 1997 the Australian National Audit Office (ANAO) undertook an across-the-board review of internal audit within the Commonwealth¹. Central to that review was an analysis of responses to a questionnaire (the GAIN² Questionnaire) that was distributed to 49 Commonwealth organisations³.
2. The ANAO reissued the GAIN Questionnaire in subsequent years and received responses from 48 organisations in 1998 and 27 in 1999. The information provided by participating organisations to the questionnaire over the past three years has been used as the basis for this Audit Report.
3. This Report is the first in a series of benchmarking studies being undertaken by the ANAO into common business processes. Two other studies of the finance function and human resources are currently being undertaken. The primary purpose of these studies is to obtain and report quantitative data (metrics) on aspects of performance of the function or business process of interest. This data can be utilised by all public sector organisations to develop appropriate benchmarks for their own environment. The benchmark studies are also undertaken as part of the ANAO's Information Support Services.
4. The most obvious use of such quantitative benchmarks is for Commonwealth organisations to compare their own performance against each benchmark. In this way, it is possible to detect and diagnose areas of concern in business processes in terms of the dimensions of their cost, quantity, time and quality.
5. Such analysis can be utilised as part of continuous improvement programs, in business re-engineering or in a market testing exercise.
6. While the emphasis of the ANAO benchmarking studies is to make available public sector benchmarks, they also provide an opportunity to carry out an across-the-board assessment of the Commonwealth public sector. This assessment is based, firstly, on a comparison of the responses

¹ Audit Report No.46 of 1997-98, *Internal Audit*, May 1998.

² *Global Auditing Information Network*, Quality Auditing Services, Institute of Internal Auditors, Altamonte Springs, USA.

³ The survey included agencies subject to the *Financial Management and Accountability Act 1997* and entities subject to the *Commonwealth Authorities and Companies Act 1997*.

between the participating Commonwealth organisations (the Commonwealth group) and secondly, through the use of private sector data, within an international peer group. These comparisons highlight those organisations within the Commonwealth that are performing well and provides a set of relevant data for comparison between the two groups.

7. The peer group utilised in this Report is the total population of organisations that have participated in completing the GAIN Questionnaire. The Questionnaire was developed and is maintained by the American Institute of Internal Auditors. There are in excess of 500 organisations that have contributed to the GAIN database. It is this group (titled the GAIN Universe) that is the principal international peer group against which the Commonwealth public sector internal audit group has been assessed.

8. To compare and assess relative performance of the public sector internal audit group the ANAO developed a series of benchmark performance indicators that deal with areas of key concern and are based on cost, time, quantity and quality dimensions. For each of these indicators a range of results have been determined according to responses provided to the GAIN survey. These results are limited in scope in the sense they rely only on data provided for the GAIN Questionnaire. However they provide a basis for comparison across groups and should help organisations develop their own useful benchmark metrics.

9. It is important to note that the results cannot take account of, or distinguish between, the different environments in which internal audit operates in the public and private sector. As a consequence, the benchmark study cannot provide definitive insight into the differences in performance against the benchmarks by internal audit in the public and private sectors. The analysis undertaken by the ANAO therefore is indicative only.

10. The Report makes a number of comparisons between various groups. Where these comparisons raise questions, organisations are encouraged to undertake further investigation. By providing a public sector benchmark range for a number of different metrics, organisations may gain a degree of comfort that their internal audit function is performing within range, but performance against metrics should not be assessed in isolation. The report is intended to provide a map so organisations can see where they sit in the Commonwealth and international landscape. Specific actions can only be gained through more work and careful consideration of individual results and of how those results interrelate.

11. The report structure is based on consideration of internal audit resources (Chapter 2), the processes undertaken by internal audit (Chapter 3), and the outputs of internal audit (Chapter 4). Benchmarks across the dimensions referred to above have been developed and a conclusion reached on each dimension, and overall, for each of the three areas identified above.

12. Chapter 5 provides details of the types of key performance indicators that can be used by internal audit to assess performance, and have been used in this Report. Appendix 2 to this Report provides a work sheet to enable internal audit sections to record their performance and compare it with 'world class' and 'common practice' performance. Those key performance indicators may also serve as useful benchmarks for those sections as well as by audit committees.

13. Chapter 6 provides a summary of the recommendations made in Audit Report No.46⁴ and, based on the benchmark study, overall progress by agencies on action taken on the recommendations. However, information on action on some recommendations in that Report was not obtained for the purposes of this benchmark study.

14. The Commonwealth public sector organisations participating in the benchmark study have been provided with a comprehensive, detailed report comparing their results with those of other organisations in the Commonwealth public sector group and with the global population.

⁴ Ibid., Audit Report No.46 of 1997-98, pages 11 and 12.

Key Findings

15. The 1997-98 study reported in Audit Report No.46⁵ concluded that the internal audit function in most organisations was meeting the expectations of senior management thus fulfilling the role articulated through the internal audit charters.

16. On the basis of the foregoing measure it was also concluded that the internal audit function was broadly effective. However, when the standards of international best practice were addressed, it was concluded that the function in the public sector was significantly behind the private sector on the basis of a number of key performance measures.

17. This study indicates the Commonwealth has maintained the positive elements of their internal function identified in the 1997-98 audit, and made satisfactory progress in many other aspects of internal audit operations between 1997 and 1999. The Commonwealth group reported results that were equal to or higher than the GAIN Universe, in the following areas:

- the level of education, qualifications and experience of internal auditors;
- the adoption of value-added 'consulting' activities and new approaches to complement the traditional internal auditing 'assurance' role by in-house and co-sourced internal audit functions;
- the greater use of effective quality control techniques;
- greater utilisation of external peer-based quality assurance reviews;
- 'better practice' approaches to the structure and content of internal audit reports; and
- the level of acceptance and implementation of internal audit recommendations.

18. The study also found that the Commonwealth's Internal Audit function may have potential to develop in some areas. Opportunities may also exist in some organisations for progress to be made in regard to the following areas where the Commonwealth group reported higher results than the international peer group:

- the overall level of resources applied to internal auditing activities; and
- cycle times to produce internal audit reports.

⁵ Ibid., Audit Report No.46 of 1997-98, page 10, paragraph 1.13.

The Commonwealth group also reported the following results that were lower than the international peer group:

- the level of investment in training internal auditors; and
- utilisation rates of formal client satisfaction surveys.

19. The above observations do not take account of, or distinguish between, any differences in the environments in which internal audit operates in the public and private sectors. Therefore the results may raise further questions for public sector organisations which should be diagnosed through further investigation in each agency and entity.

20. It is worth noting in this context that in June 1999 the Board of Directors of the Institute of Internal Auditors⁶ (the IIA) approved a new definition of 'internal auditing' which represented a shift from a narrower role of control appraisal to encompass a broader role that included process improvement framed against achievement of organisational objectives.

21. These findings are discussed in detail in Chapters 2 to 4 of the Report.

⁶ Krogstad, Jack L., Ridley, Anthony J., and Rittenberg, Larry E. October 1999, 'Where We're Going', *Internal Auditor* Altamonte Springs pp. 26–33

Recommendations

22. The nature of a benchmarking study precludes detailed recommendations—indeed, as discussed previously, that is not its primary purpose.

23. However, based on the assessment of the Commonwealth group’s results over the past three years, and the above findings, two broad-based recommendations can be made. These recommendations are directed to all Commonwealth internal auditing activities.

Recommendation No.1 It is **recommended** that audit committees review the operation of their internal audit function against the benchmarks in this Report, including:

- the overall level of resources applied to internal auditing;
- the training needs and the level of training provided to internal audit staff;
- the cycle time to produce internal audit reports; and
- the use of client satisfaction surveys.

Recommendation No.2 It is further **recommended** that organisations through their audit committees continue to review the role and scope of internal audit and assess how it compares with the new definition of ‘internal auditing’ approved by the Institute of Internal Auditors. Such a review may help identify appropriate direction to ensure the internal audit function’s on-going effectiveness.

Benchmark Study Findings and Conclusions

1. Introduction

The internal audit function

1.1 The internal audit function is generally regarded as a key review and monitoring mechanism by an organisation's management.

1.2 Internal audit is more broadly defined now - compared to the past - as an appraisal activity established within an organisation as a service to the organisation.

1.3 At the time the benchmarking study commenced (1997) the Institute of Internal Auditors, in its professional standards, described the function as one that 'assists clients, particularly management, in the discharge of their responsibilities'. The activities of an internal audit unit may have included analysis and/or appraisal: and the provision of recommendations, counsel and/or information as part of its assurance functions.

1.4 The distinguishing feature of internal audit was, and is, that it is *independent* within the organisation. This has generally been characterised by the organisational and reporting arrangements that apply only to internal audit and by the absence of involvement of internal audit personnel in operational activities.

1.5 The functions undertaken by internal audit have traditionally focused on examining, evaluating and monitoring the adequacy and effectiveness of the '*internal control structure*'⁷ of an organisation - in essence, the management and accounting controls which operate in relation to key business systems.

1.6 However, at the time of reporting the results of the audit (May 1998) there was an emerging trend, particularly within the private sector, for internal audit to extend its activities and influence into areas of risk management, financial advising and decision-support.

1.7 The role of the internal auditor was changing from that of a 'watchdog', that is, policing management to ensure compliance, to that of a 'business partner' with management, acting as an independent adviser.

⁷ Refer to the Better Practice Guide to Effective Control, '*Controlling Performance and Outcomes*', 1997 produced by the ANAO for a more detailed explanation of a control structure.

1.8 The extent to which this emerging role proved to be appropriate for internal audit has depended in large part on the maturity of the corporate governance arrangements and sophistication of the control structure as part of those arrangements within each organisation.

1.9 Since 1998 the role of internal audit has continued to evolve with the most recent change occurring in 1999.

Definition of internal audit

1.10 The range of activities undertaken by internal audit groups varies widely. The following data (Figure 1.1) collected from Commonwealth organisations gives dimension to the concept that internal audit need not have clearly defined boundaries.

1.11 The Figure shows that a wide range of activities is regularly performed under the internal audit function. These activities are only a selection of work performed by internal audit units. In addition to the activities above, internal audit units reported they provided a number of value added services including fraud investigation, training and awareness; risk management support, advice and problem solving; cultural change and best practice dissemination and research. Any attempt to precisely define internal audit through the activities it performs carries with it the risk of excluding important elements of the internal audit function. Despite this, independence and objectivity and focus on operational priorities within an organisation distinguish the internal audit function.

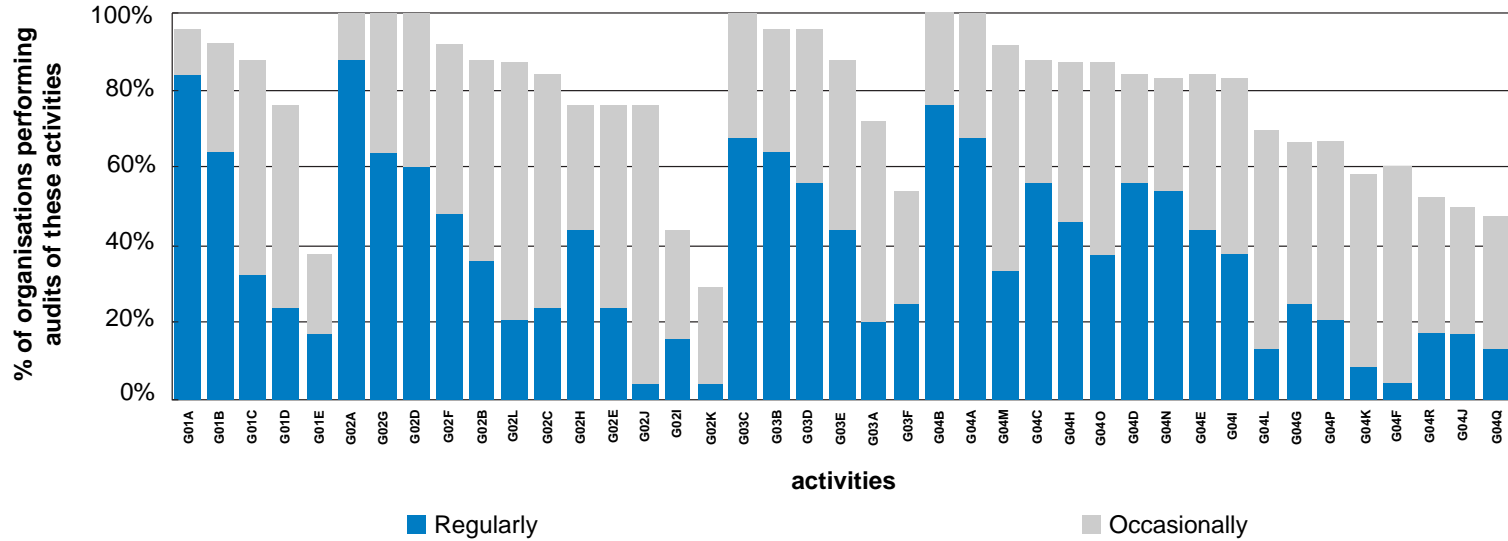
1.12 The Board of Directors of the Institute of Internal Auditors (the IIA) approved a new definition of 'internal auditing' at its June 1999 meeting as follows:

'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'.⁸

1.13 A comparison of the new definition with its predecessor provides insights into the profession's own view of its current role and future direction. Such a comparison poses a number of challenges for internal audit functions operating in the Commonwealth public sector.

⁸ Op.cit., 'Where We're Going', *Internal Auditor* Altamonte Springs pp. 26–33

Figure 1.1
Audit Activity



- G01E** Interim/quarterly financial results reported externally
- G02A** management controls
- G02G** safe guarding of assets
- G02D** operating efficiency
- G02F** long-term contracts and purchase agreements
- G02B** human resources
- G02L** process improvement and quality programs

- G02C** capital expenditures
- G02H** accomplishment and effectiveness of established objectives and goals for operations and programs
- G02E** business contingency planning
- G02J** facilities management
- G02I** logistics management
- G02K** marketing
- G03C** procedures for preventing or uncovering illegal or questionable payments
- G03B** other non-financial policies and procedures
- G03E** generally accepted accounting principles (GAAP)
- G03A** organisation code of ethics
- G03F** store audits

- G04H** controls and other aspects of local area networks
- G04O** information management
- G04D** new IT application systems development projects
- G04N** major system integration projects
- G04E** improvements to existing IT applications systems
- G04I** controls over use of PCs (access, data security, backups)
- G04L** electronic data interchange (transmission, translation and access controls)
- G04G** telecommunications controls
- G04P** strategic information plans

- G04K** end-user computing
- G04F** software licensing/possible uses of unlicensed software
- G04R** electronic commerce
- G04J** prevention of viruses
- G04Q** data warehousing

1.14 Perhaps the most significant of these challenges relates to the ‘business concept’ for internal audit. The former definition characterised internal auditing as ‘*an independent appraisal function established within an organisation*’. The new definition challenges the model of internal audit as an independent function fully within an organisation; placing greater emphasis on its objectivity and acknowledging that out-sourcing internal audit work, at least in part, may be a legitimate management response to the current and expected future environment.

1.15 Internal auditing is now defined as an ‘assurance and consulting activity’—representing a shift from a narrower role of control appraisal to encompass a broader role that includes process improvement framed against achievement of organisational objectives.

1.16 The scope of internal auditing now embraces wider concepts of corporate governance, risk and control—recognising that control exists within an organisation basically to manage risk and promote effective governance.

1.17 These fundamental shifts in the nature of internal auditing mirror, to a large degree, developments within the profession over the past decade. For example, the growing use of control self-assessment techniques as an adjunct to, and replacement for, traditional internal audit activities. Consequently the new definition is, in large measure, a reflection of current reality in many internal auditing ‘practices’ rather than an anticipation of future developments.

1.18 In this study, the new definition is suggested for use as a benchmark for evaluating internal audit operations in the public sector. To this end, where appropriate, the essential concepts embodied within the definition have been tested in this Report against current reported practice.

Background to the study

Previous audit coverage

1.19 ANAO most recently examined the internal audit function in 1997⁹. This audit was undertaken in two parts—a survey of 49 Commonwealth organisations was carried out (the benchmarking study), complemented by a detailed review of the internal audit function within 12 of these organisations.

1.20 That audit found that the public sector internal audit function was meeting management expectations, as articulated in Internal Audit Charters. However, the audit also found management expectations, and

⁹ Op. cit., Audit Report No.46 of 1997-98.

hence internal audit activity, had not kept pace with recognised international best practices. In particular, that audit found:

- management support for the internal audit function required strengthening—specific attention was required in relation to the authority and scope of internal audit charters;
- communication between internal audit and the audit committee and between internal audit and line management required improvement—there was a mismatch of expectations across the three groups of the role for internal audit. As well the nature and frequency of meetings between the three groups were unsatisfactory;
- the focus of internal audit activity was on financial and accounting risks reflecting a traditional role of compliance and control appraisal—a broader role in relation to governance and business risks that had then emerged in the private sector (now reflected in the new definition) had not transferred to the public sector at that time;
- internal audit staff qualifications, skills and experience were appropriate, except in the case of a number of chief internal auditors, whose background, qualifications and experience were less relevant to the internal audit function. The central importance of the head of the internal audit practice to its overall effectiveness created significant cause for concern in this regard;
- continuous improvement techniques and approaches were not widely adopted by internal audit practices. External, peer-based quality assurance reviews recommended by the IIA were not being undertaken and the development and use of appropriate key performance indicators of internal audit quality were limited; and
- the approach to reporting audit findings accorded with best practice principles, for example, executive summaries were used widely and reports incorporated management comments. However, the timeliness of reporting internal audit findings was an issue. The average duration to issue a final report was 38 days compared to best practice cycle times of 14 days or less.

1.21 A number of recommendations were made in the Audit Report that addressed these findings. In addition, a Better Practice Guide¹⁰ was developed and distributed to assist organisations in re-engineering their internal audit function.

1.22 This Audit Report also examines the extent to which the previous audit recommendations and the better practice guidance had been acted on (part 6 specifically refers).

¹⁰ Australian National Audit Office, *New Directions for Internal Audit*, July 1998.

Public sector reform

1.23 To be relevant and useful, an evaluation of the present state of the internal audit function needs to consider ongoing financial, management and organisational reforms – in particular the impact of these reforms on the risk profiles and control frameworks of public sector organisations. Over the last three years, on-going pressure on departmental budgets; down-sizing; restructuring of departments and programs, including the separation of policy and service delivery; and the trend towards out-sourcing, are manifest examples of changes being experienced by the public sector and impacting on internal audit.

1.24 Other recent changes have occurred in relation to the accountability and financial management of public sector organisations. These have included the introduction of accrual accounting and budgeting and the related outcomes/output framework.

1.25 The strategic response to the changes has included ongoing examination of corporate governance frameworks, including review and monitoring mechanisms, for example, in relation to risk profiles, to establish their continued appropriateness and effectiveness.

1.26 The assessment of how internal audit has changed over the last three years has been undertaken in the context of this significantly changing environment.

Benchmark study approach

Scope of the study

1.27 This benchmarking report, including its findings and conclusions, are based on the information provided by public sector organisations in response to a questionnaire that has been issued for the past three years. The questionnaire sought detailed information that some organisations found difficult to provide. Consequently, the standard of evidence relied on for the study must be considered persuasive, rather than conclusive, based as it is on self-assessment by organisations. The quality assurance processes undertaken by the ANAO over the data, are not of themselves, sufficient to guarantee its integrity.

1.28 The Questionnaire—the benchmark instrument referred to above—was originally developed by the Institute of Internal Auditors¹¹ as a service to its members, in order to capture quantitative and qualitative data that could be used to benchmark internal audit performance. It is commonly referred to as the GAIN Questionnaire.

¹¹ *Global Auditing Information Network, Quality Auditing Services*, Institute of Internal Auditors, Altamonte Springs, USA

1.29 The ANAO utilised the Questionnaire in its 1997 review of internal audit. In that year, 49 Commonwealth public sector organisations completed the Questionnaire. The Questionnaire was updated and reissued in 1998, with 48 organisations participating; and finally in 1999, with 27 organisations responding. Participation in the survey was voluntary and organisations were encouraged to participate in all years. However, for a variety of reasons, including issues with the data collection instrument and some changes in organisations following government decisions, the number declined in 1999. Some organisations indicated that the effort required for data collection was not returned in the resulting detailed GAIN report. Where organisations felt the costs outweighed the benefits, they may have made a decision not to participate in following years. In addition organisational change describing new priorities for internal audit units meant resources required for completion of the GAIN survey were unavailable in some organisations.

1.30 The Commonwealth group was initially constructed to obtain a broad cross-section of organisational types and sizes. The following figures and table summarise the composition of the group by type of organisation (based on *Commonwealth Companies and Authorities Act 1997* (CAC) organisations and *Financial Management and Accountability Act 1997* (FMA) organisations, and by the size of the internal auditing function.

Figure 1.2
Survey participants by type

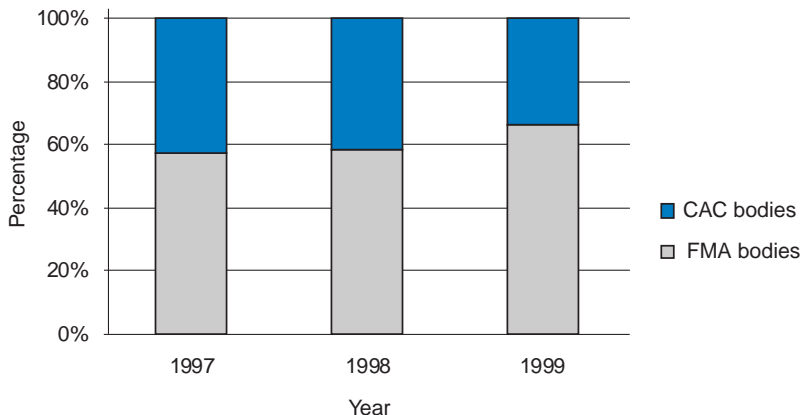
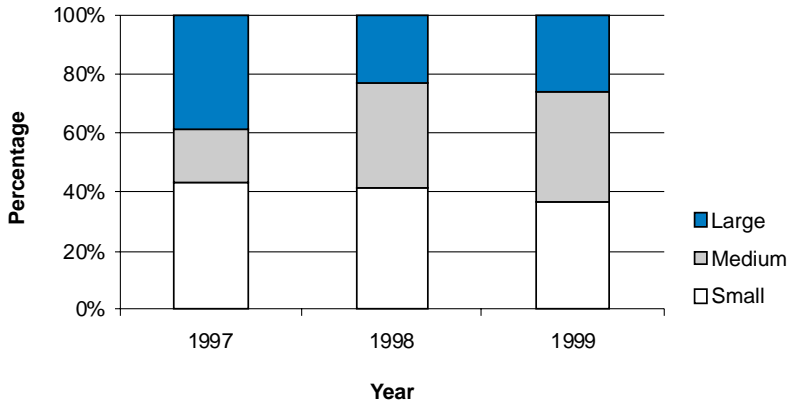


Figure 1.3
Survey participants by size



Notes:

1. **Large** has been defined as involving more than \$500 million departmental expenditure; **Medium** has been defined as involving between \$100 million and \$500 million departmental expenditure; and **Small** has been defined as involving less than \$100 million departmental expenditure. Dollar amounts in this report are in 1999 dollars.
2. The Administrative Arrangements Order of 21 October 1998 resulted in structural and functional changes to some agencies. Care should be taken to recognise these and/or other significant changes when interpreting data and commentary in this report.

Table 1.1
Survey participants by size of internal audit group

<i>Audit Staff size</i>	<i>Commonwealth Group (percentage)</i>	<i>GAIN Universe (percentage)</i>
1 to 10	84	40
11 to 25	12	28
26 to 50	-	17
51 +	2	15

1.31 Each year Commonwealth public sector organisations participating in the benchmark study have been provided with a comprehensive, detailed report comparing their own results with those of the other organisations in the Commonwealth group and with the global population.

1.32 The global population comprises more than 500 organisations from both the private and public sectors. While most organisations are U.S. based private sector bodies, over the three years of the study this composition has changed to now include 64—mainly Australian—public sector organisations. The changing composition has allowed some assessment of differences between the private and public sectors, but no separate study has yet been undertaken to identify these differences and attribute any particular weighting to them.

Study objectives

1.33 This benchmarking report is the first of a series of benchmarking studies being undertaken by the ANAO which relate to financial management and control. The general objectives of these studies are to:

- obtain and report quantitative and qualitative benchmarks of performance in the public sector; and
- compare the public sector benchmarks with equivalent international data to identify better practices and highlight opportunities for improvement.

1.34 In relation to internal audit, given the three-year duration of the study, these generic objectives have been extended to include an analysis of trends in internal audit over the past three years. As mentioned previously, with past audit coverage, an additional objective was to determine, to the extent possible, whether the recommendations of the previous Audit Report had been acted upon.

Evaluation criteria

1.35 The GAIN Questionnaire is designed to capture a wide variety of information, not all of which is necessarily useful as a benchmark for either diagnosing problem areas or evaluating comparative performance.

1.36 The ANAO has distilled from the Questionnaire data against each of the key performance indicators that are considered to represent the basis for developing useful benchmarks across cost, time, quantity and quality dimensions. Data for each key performance indicator has been used as the evaluation criteria for this Report. This data has been categorised across internal audit inputs, processes and outputs to facilitate further analysis that can be aligned with the current government emphases on market testing of corporate services, process improvement, and output costing and pricing. Table 1.2 summarises the benchmark performance indicators used in this Report.

Interpretation of data

1.37 The following three chapters deal with the benchmarks relevant to each of the above categories. The benchmarks utilised from the GAIN Report are generally the weighted average of the result for the Commonwealth public sector group of organisations compared to the same average for the global GAIN population.

1.38 However, where possible, metrics used in charts and tables have been represented in quartile ranges. A quartile chart is divided into four sections, with each section representing 25% of the sample data. Quartile

charts provide information on the spread of results around the median or middle result, and allow organisations using this Report to determine their position relative to the survey group.

1.39 The quartiles have been determined by the ANAO from the source data provided by Commonwealth organisations. There are no comparable data for the GAIN global group.

1.40 The Institute of Internal Auditors, in its 1999 GAIN Report, also identified a small number of benchmark metrics for internal audit, based on an analysis of those features that were found to be common to internal audit practices that are generally regarded by their peers in the profession to represent 'World Class' better practice.

1.41 The 'World Class' benchmarks are not available for every performance indicator used in this report, but where the available 'World Class' benchmarks coincide with the indicators used by the ANAO, the average results for the World Class group have been reproduced in this Report.

1.42 All monetary amounts used in this Report are in Australian dollars, unless otherwise stated.

Table 1.2
Benchmarks used for assessing internal audit

	<i>Input</i>	<i>Process</i>	<i>Output</i>
Cost	<ul style="list-style-type: none"> • Average direct cost per internal auditor. • Cost of internal audit as a % of total expenditure. 		<ul style="list-style-type: none"> • Average cost per audit report.
Quantity	<ul style="list-style-type: none"> • Number of organisational employees per auditor. • Organisational expenditure per auditor. 	<ul style="list-style-type: none"> • Distribution of resources between activities. • Analysis of assurance activities. • Analysis of consulting activities. 	<ul style="list-style-type: none"> • Average reports per auditor.
Time		<ul style="list-style-type: none"> • Distribution of time within audits. • Audit life cycle timing. 	
Quality	<ul style="list-style-type: none"> • Knowledge levels of internal auditors. • Professional qualifications of internal auditors. • Years of experience/turnover of internal auditors. • Average training hours per auditor. 	<ul style="list-style-type: none"> • Quality control techniques. • Quality assurance programs. • Client satisfaction monitoring. 	<ul style="list-style-type: none"> • Content of report and report process. • Acceptance and implementation of recommendations.

2. Input benchmarks

2.1 Internal auditing is a business activity that consumes scarce professional resources. While the role of internal audit is generally viewed as central to good corporate governance within an organisation, many executives and boards find it difficult to determine the appropriate level of investment required for internal audit.

2.2 This is a complex issue that is influenced by a myriad of inter-related factors. The stability of the organisation and maturity of the control structure within the organisation are key determinants of the level and quality of resources that should be applied to internal audit. The level of other assurance activity, whether undertaken as a self-assessment exercise by management or as a product of the external audit function, can also influence internal audit investment decisions.

2.3 Given the complexity of this issue, it is clearly inappropriate to rely on any one benchmark to gauge the appropriate level of investment in internal audit. However, the following metrics are generally considered to provide a sound foundation upon which to build more in depth examination of the issues affecting comparative analysis of the size and resourcing of internal auditing activities. These metrics are categorised in terms of the cost, quantity and quality dimensions.

Table 2.1
Internal Audit Input (Resource) Benchmarks

<i>Dimension</i>	<i>Metric</i>	<i>Location</i>
Cost	Average direct cost per internal auditor	Figure 2.1
	Cost of internal audit as a percentage of total expenditure	Table 2.2
Quantity	Number of organisational employees per auditor	Figure 2.2
	Organisational expenditure per auditor	Figure 2.3
Quality	Knowledge levels of internal auditors	Table 2.3
	Professional qualifications of internal auditors	Table 2.3
	Average training hours per internal auditor	Table 2.3
	Years of experience/turnover of internal auditors	Figure 2.4

Cost dimension benchmarks

Introduction

2.4 The relatively small size of most public sector internal audit units makes it difficult to attract and retain staff with the knowledge bases and skill sets required to provide a comprehensive, value-added service.

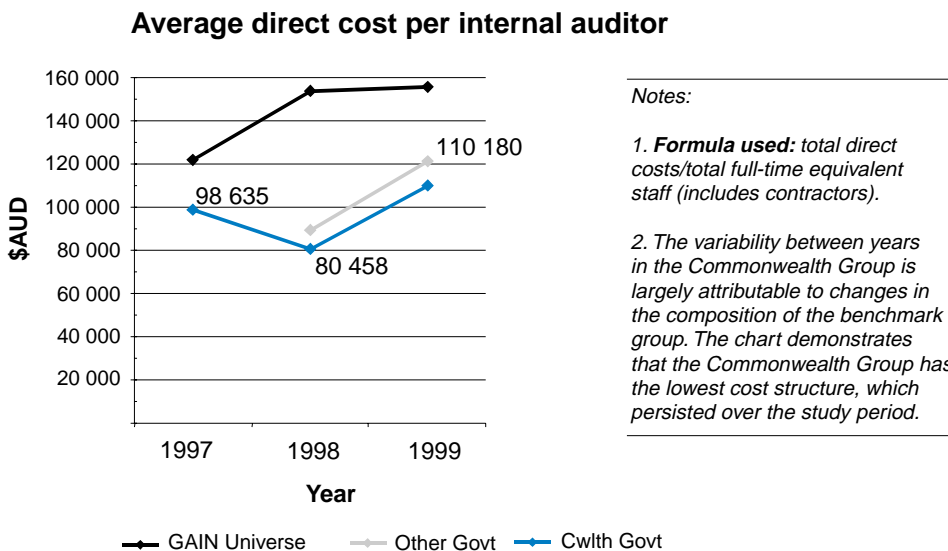
2.5 The 1997-98 Audit Report¹² found the strategic response to this challenge by the majority of organisations was to either fully out-source, or to co-source, internal audit resources from the private sector.

2.6 The total annual direct cost¹³ of internal audit in the surveyed organisations in 1997 was \$25.8 million. This represented an average of over \$500,000 each. In 1998 and 1999 the average was \$638,963 and \$712,141 respectively per organisation.

Average direct cost per internal auditor

2.7 The direct cost of operating an internal audit function is a practical starting point for analysis. Figure 2.1 summarises the average direct costs per internal auditor. This metric has been used to enable a more meaningful comparison between organisations with different sized internal audit functions.

Figure 2.1



Comparison of average direct costs of internal audit activity

2.8 Based on the survey and the GAIN database in the Australian Commonwealth Government context, analysis of these direct costs indicates that internal audit is provided at a lower average cost when compared to other Government sectors and to the private sector.

¹² Op. cit., Audit Report No.46 of 1997-98, page 22.

¹³ In the GAIN questionnaire these costs were specifically identified: salary (including bonuses and benefits, travel, training, contractor and consultants, major nonrecurring expenses (such as reorganisation or downsizing), in addition organisations were asked to provide 'other costs' – here there may have been some variability amongst responses given but generally organisations were expected to provide additional costs in accordance with the definition given in Audit Report No.21, 1998-99, *Costing of Services*, page 41: Direct costs are those costs which, by their nature, are capable of being traced or assigned to an activity or good/service, and typically include employee related costs, depreciation, printing/stationery and consultancy.

Internal audit costs as a percentage of total expenditure

2.9 This metric provides data on the cost of the internal audit function relative to organisational expenditure. The following table summarises the results for the Commonwealth group only, for the latest survey year (the GAIN study does not include comparative information). While individual circumstances dictate the extent to which this benchmark is relevant on its own, it does provide a basic comparison from which a more complete picture can be built as additional information is considered in context.

2.10 A comparative quartile analysis between the two groups in the Table shows that all but the first quartile of the Commonwealth group fits within the range of the highest quartile of the 'Global' group. In other words, lower cost internal audit in Commonwealth organisations in relation to this metric, are more costly than three-quarters of the 'Global' group. The figures used for the above observation were calculated using Departmental expenditure only for the denominator. Departmental expenditure was used because it was considered a better comparison against private sector organisations could be achieved by using Departmental expenditure only as a proxy for revenue.

2.11 When Administered expenditure is included in the denominator for calculation of the metric, quartiles shift downwards. Organisations with Administered expenditures may feel it more appropriate to use both Departmental and Administered expenditure as a proxy for revenue. Certainly organisations with large Administered expenditures will achieve a lower ratio by including this in the ratio calculation.

Table 2.2

Cost of internal audit as a percentage of total expenditure

1999 Study Year	Minimum		Median		Maximum
Commonwealth (Agency only)	0.01%	0.10%	0.17%	0.28%	0.82%
Commonwealth (Agency and Administered)	0.004%	0.035%	0.071%	0.175%	0.689%
Global	0.001%	0.018%	0.036%	0.077%	0.271%

Notes:

- Formula used:** total internal audit cost / total organisational expenditure.
- Departmental' expenditure has been used where appropriate in this ratio to facilitate comparison between organisations with varying levels of 'Administered' expenditure (from nil to many millions). For the benefit of organisations wishing to include administered expense in their comparisons, additional quartile ranges have been calculated 3. The 'Global' benchmarks are taken from Arthur Andersen Global Best Practices® Knowledgebase of 132, mainly private sector, organisations. The percentages given relate to organisational revenue, which has been used in this case as a private sector proxy for Government expenditure.*

2.12 In the previous Audit Report on Internal Audit¹⁴ it was found that those organisations, which had fully out-sourced their internal audit activities, generally performed better on this metric than those with an in-house function. This has not been the experience in the most recent study year.

2.13 Analysis of the Commonwealth group by quartile, indicates that two-thirds of those organisations in the highest quartile had fully out-sourced internal auditing functions. Only 30% of fully out-sourced internal auditing functions were in the lowest quartile.

Conclusion on the cost dimension

2.14 The apparent inconsistency between the above two cost metrics is worthy of further consideration.

2.15 Given that the average cost per auditor in the Commonwealth is significantly below international experience and other levels of Government included in the benchmark group, it might be expected that the average cost of internal audit proportional to total expenditure would also be lower, or at least no higher.

2.16 One potential source of explanation for this difference is the total level of resources applied to internal audit. Where these are higher as compared to the benchmark group it could be expected that the ratio of internal audit expenditure to organisational expenditure would also be relatively higher.

2.17 Alternatively the above outcome may be considered to be an appropriate response in a period of significant change. Greater risks may have arisen as a result of major restructuring, including down-sizing, and the re-engineering of program and service delivery, often with significant information technology implications, requiring strengthening of assurance mechanisms.

2.18 The following benchmarks provide information on the level of resources applied to internal audit.

Quantity dimension benchmarks

Number of organisational employees per auditor

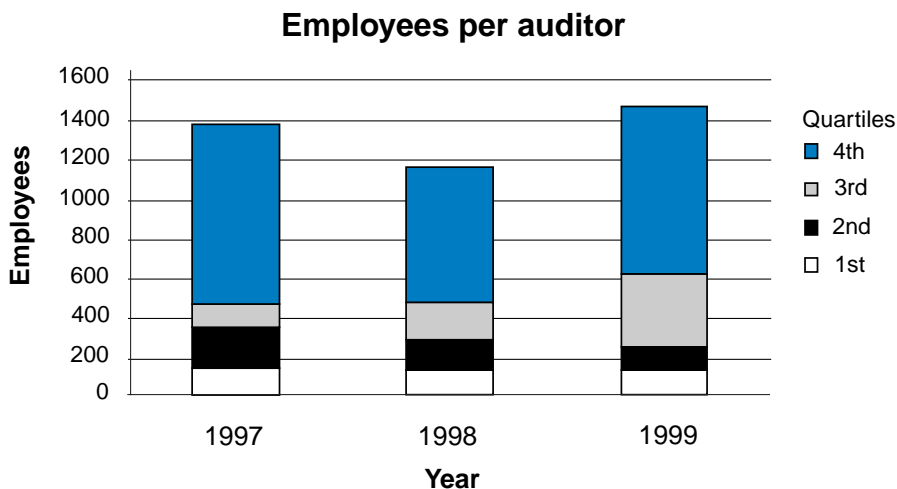
2.19 One way to gauge the appropriate size of internal audit activity is to look at the number of internal audit staff (the full-time equivalent) in relation to the total number of organisational employees. In this respect, the number of organisational employees is used as one proxy for the scale or size of the organisation.

¹⁴ Op. cit., Audit Report No.46, page 23.

2.20 The following figure displays the results of this analysis for the Commonwealth group over the past three years. The figure provides detail on the ratio of organisational employees per auditor, by quartiles.

Figure 2.2

Ratio of organisational employees to internal audit staff



Notes:

- Formula used:** Total employees / internal audit staff. A high ratio may imply greater economy in use of resources. It may also signify under-staffing.
- The 1997 results exclude one organisation with a ratio of 1:4084—the organisation had not been able to recruit staff to fill their desired profile.

2.21 The results for the Commonwealth show a large range of variability, with ratios varying from approximately 1:40 up to 1:1500. Organisational scale has some impact on the ratios with the larger organisations tending to have the higher ratios. However, this is not universal—there are some small organisations of fewer than 500 staff in the upper quartile and some larger organisations with more than 1000 staff in the lowest quartile.

2.22 To put these figures into better perspective, in each of the survey years, three quarters of the Commonwealth group had a ratio of employees to auditors of less than approximately 1:600 (that is, the 3rd quartile line).

2.23 The average ratio for the GAIN universe has, since the inception of the study in 1993, always been above this figure. In 1993 it stood at 1:922. In comparison, the 1999 average ratio for the Commonwealth group was 1:706 and for the 'World Class' GAIN group it was 1:1357. The GAIN data also indicated that the average ratio for internal audit group up to 10 staff (which make up 84% of the Commonwealth group), has consistently been of the order of 1:1000.

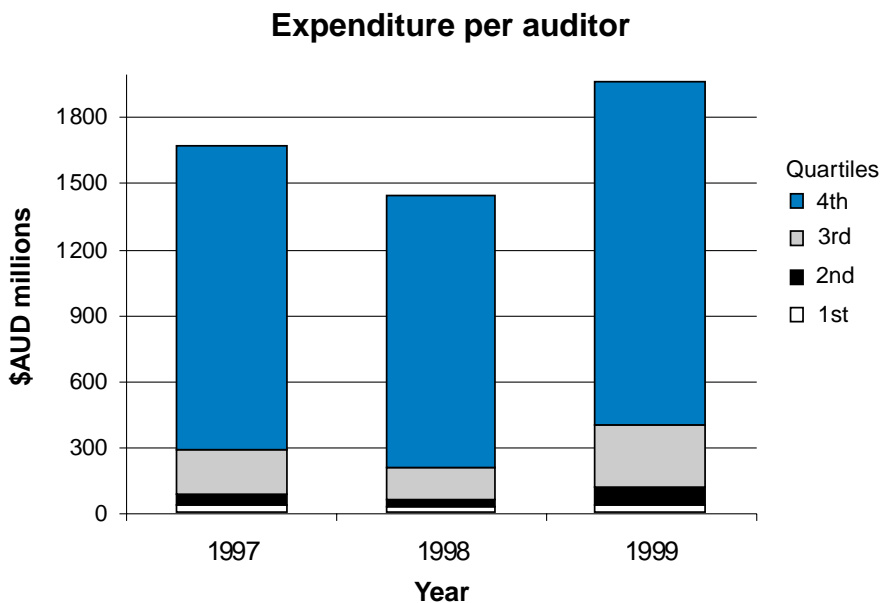
Organisational expenditure per auditor

2.24 The average of total organisational expenditure (this includes both Departmental and Administered expenditure) per auditor is comparable to the above metric, in that it correlates organisational size (expenditure being the proxy for size in this instance) with resources applied to internal audit.

2.25 The following Figure tracks the Commonwealth group over the three years of the benchmarking study. It shows that three-quarters of the study group each year are below A\$400 million of expenditure per internal audit resource.

Figure 2.3

Total organisational expenditure per auditor



Notes:

1. **Formula used:** total organisational expenditure (Agency and Administered) / total full-time equivalent internal audit resources. A high ratio may imply under-staffing, equally a low ratio may imply over-staffing.
2. The data demonstrate that the compression of the Commonwealth survey group toward lower ratios has been consistent over the study period.

2.26 As discussed previously, a private sector proxy for organisational size that is analogous to organisational expenditure by government departments, is gross revenue. Comparison of the above results with the GAIN universe has been performed using this analogue, as expenditure data was not available.

2.27 The average ratio from the GAIN universe over the past three years has been in excess of \$400 million. The 'World Class' GAIN group for 1999 has an average ratio of \$450 million revenue per internal audit resource.

Conclusion on the quantity dimension

2.28 The results for both metrics under this dimension are consistent and indicate that a significantly higher proportion of resources are applied to internal audit when compared to the GAIN Universe. The consistency of results between the metrics is further reinforced by the fact that the organisations within each quartile remained largely unchanged for both metrics.

2.29 It is also noteworthy that the overall ratio of internal audit staff to total employees, 1 to 600, has varied little since 1989. At the time of the 1989 survey¹⁵ the overall rating was 1 to 506 and 1 to 560 in 1997-98¹⁶.

2.30 The period from 1997 to 1999 has been a time of significant and ongoing financial management and other related reforms. Pressure on departmental budgets; restructuring of organisations and programs, including the separation of policy and service delivery functions; the requirements for contestability, including the increasing trend towards out-sourcing; and the accrual budgeting initiatives, including the focus on outputs and outcomes, are examples of the nature of relevant changes being experienced by the public sector. In this environment it may be that organisations sought additional assurance that the reforms implemented were working effectively and they used internal audit for this purpose.

2.31 Notwithstanding, the survey results do suggest that this aspect is worthy of ongoing consideration by chief executives and audit committees to establish that the level of resources applied to internal audit in their organisation continues to be an appropriate response in a period of significant change.

Quality dimension benchmarks

2.32 The quality of resources applied to internal auditing activities will be a key determinant of their effectiveness and usefulness to the organisation. The attributes that are generally used to indicate quality relate to staff knowledge, skills and relevant experience.

Knowledge of internal audit staff

2.33 In this study knowledge levels of internal auditors have been assessed using the following indicators:

- education levels;
- professional qualifications; and
- training hours per auditor.

¹⁵ Audit Report No.6, 1990-91, 'Survey of Internal Audit in the Commonwealth Public Sector', September 1990.

¹⁶ Ibid., Audit Report No.46, paragraph 2.92, page 23.

2.34 The following table summarises the latest year's results for each of the above metrics and compares them to those of the GAIN universe.

Table 2.3
Analysis of the knowledge levels of internal auditors

<i>Metric for the 1999 Survey Year</i>	<i>Commonwealth group</i>	<i>GAIN universe</i>
Education level - % of staff with:		
• undergraduate degree (or equivalent)	66%	66%
• post-graduate qualification	6%	23%
Professional designations (% of staff)	58%	44%
Training hours per auditor per annum:		
• budgeted	35 hrs	59 hrs
• actual	39 hrs	61 hrs

Note: The 'World Class' GAIN metric for actual training hours per auditor is 79 hours against a budget of 81 hours.

2.35 Audit Report No.46¹⁷ of 1997-98 indicated that undergraduate degree education levels had improved to an average of 73% for the Commonwealth survey group from 43% in 1989. This result has been sustained over the past two years and is commensurate with that of the GAIN universe.

2.36 The Commonwealth group also consistently performed above that of the GAIN universe for the proportion of staff with professional designations over the study period. Dissection of the reported designations for the Commonwealth group shows that 35% of professional internal audit staff (including contracted staff) were either Certified Practising Accountants or Chartered Accountants. The CPA/CA designation therefore covered 60% of staff with professional qualifications. This result was slightly higher than for the GAIN universe. The GAIN 'World Class' group invest around 80 hours per year.

2.37 The result for training hours per auditor for both benchmark groups is consistent with past data and trends. The Commonwealth group has historically averaged around 40 hours per auditor per annum, which is the standard adopted by the professional accounting bodies in Australia. The GAIN universe has trended around 60 hours per annum per auditor.

2.38 The GAIN 'World Class' group invest around 80 hours per year.

Experience of internal audit staff

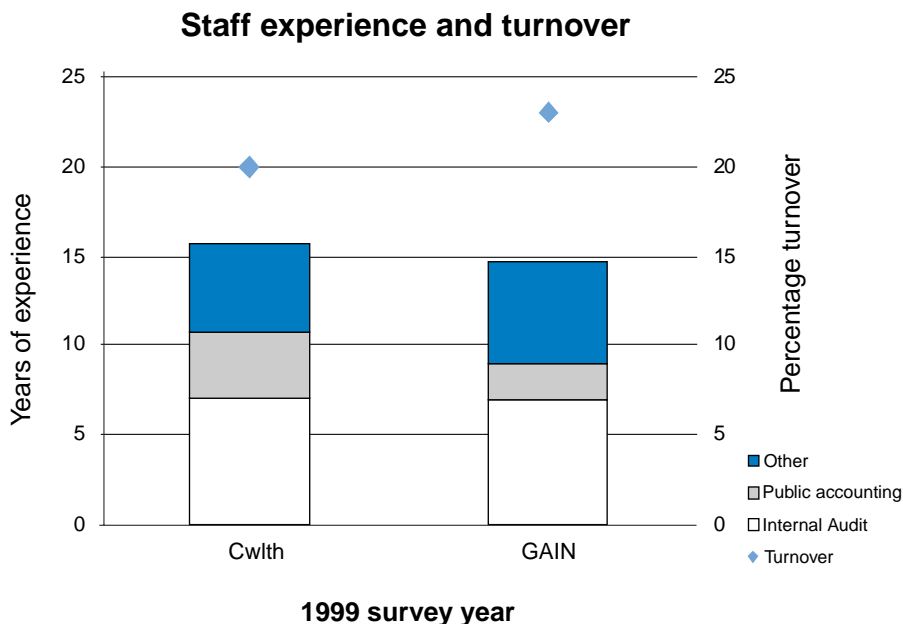
2.39 The average years of experience and the mix of experience of internal auditors is another indicator of the quality of the resources applied to the internal auditing activities.

¹⁷ Ibid., Audit Report No.46 of 1997-98, page.24.

2.40 Figure 2.4 compares the average years and mix of experience between the Commonwealth group and the GAIN universe. Also shown are the turnover rates for these two groups.

Figure 2.4

Comparison of internal audit experience and staff turnover rates



Notes:

- Formulae:** (a) total years of experience / total audit resources (b) total departures / total internal audit staff
- The GAIN 'World Class' average experience is 11.4 years.

2.41 The results are comparable between the two groups. The higher average years of experience in public accounting for the Commonwealth group reflects the greater use of contracted-in staff and prevalence of out-sourcing.

2.42 In the 1999 Commonwealth study group, 40% of internal audit functions were fully out-sourced. Only 8% were undertaken solely in-house. For the remaining organisations, the average amount of internal audit effort contracted-in was around 30%. However, there was a wide range of variability in this sub-group from 80% contract-in down to 2%.

2.43 The most common reason given for using contract-in staff or out-sourcing was a lack of expertise in the specific area subject to audit. The next most common reason was a lack of available resources and time constraints.

Conclusion on the quality dimension

2.44 The above results indicate the Commonwealth group has staff of commensurate knowledge and experience as the international peer group. The only area of difference is in the hours invested in training staff. While the hours reported accord with accepted professional standards in the Australian context, international and 'World Class' data show a higher level of time for training and staff development.

Overall conclusion on internal audit resources

2.45 The above benchmark results indicate that the quality of resources being applied to internal auditing in the Commonwealth, whether sourced internally or externally, are commensurate with, and in some respects above, international experience. The growth in the percentage of 'professional' internal audit staff holding bachelor degrees or higher qualifications over the period since 1989 is a positive outcome.

2.46 Of significant interest is the level of resourcing in the Commonwealth group. The consistency of results across the three indicators of relative size and cost demonstrate that the Commonwealth has, over the past three years, consistently applied relatively more resources to internal auditing activities than its international peers.

2.47 As indicated previously, this may be attributable to the significant organisational changes that have been associated with budgetary, financial, industrial relations and other management reforms over that period. It may also be attributable to the nature and level of internal audit activity undertaken.

2.48 This study is unable to conclude on the former cause. However, the latter cause is examined as part of the next chapter, which reviews internal audit processes and activities.

3. Process benchmarks

3.1 This chapter deals with the processes and activities undertaken by internal audit. The primary audit types undertaken by internal audit, as defined in the GAIN Questionnaire, include:

- operational (performance) auditing—reviews of operating or business processes focusing on the efficiency and effectiveness of these processes and the associated management controls;
- compliance auditing—reviews of compliance or conformity with relevant legislation, regulations, internal instructions, codes and guidelines;
- systems auditing—reviews of information technology and telecommunications which examine the IT environment and application controls; and
- financial auditing—reviews of the adequacy of internal accounting controls involving the accuracy, completeness and validity of financial information and financial reports and of the underlying accounting systems and records.

3.2 All these audit types fall within the ‘assurance’ activity referred to in the new definition of internal auditing. They may be undertaken as stand-alone audits, or as a combination of two or more types—referred to as integrated auditing.

3.3 Internal audit ‘consulting’ activities, also referred to in the new definition, are directed to facilitation rather than assessment. These activities include running workshops for risk and control self-assessment, systems development reviews and participation in problem-solving task forces.

3.4 Traditional internal audit assurance activities are typically divided into planning, fieldwork and reporting processes. This chapter examines metrics associated with each of these processes. It also examines the extent to which internal audit has moved toward the ‘consulting’ activities described above.

3.5 The following table summarises the benchmarks used in this chapter for analysis and evaluation.

Table 3.1
Internal Audit Activity (Process) Benchmarks

<i>Dimension</i>	<i>Metric</i>	<i>Location</i>
Quantity	Distribution of resources between activities	Figure 3.1
	Analysis of assurance activities	Table 3.2
	Analysis of consulting activities	Table 3.3
Time	Distribution of time within audits	Figure 3.2
	Audit life cycle timing	Figure 3.3
		Figure 3.4
Quality	Quality control techniques	Figure 3.5
	Quality assurance programs	Figure 3.6
	Client satisfaction monitoring	

Quantity dimension benchmarks

3.6 The following benchmarks consider the allocation of resources to the various forms of internal auditing activity. The two major categories of activity in the new internal auditing definition—assurance and consulting—have been used in the analysis. ‘Assurance’ activities are defined to include audits (operational, compliance, financial and information systems), fraud investigations, external audit assistance and special projects. ‘Consulting’ activities include supporting organisational re-engineering, control self-assessment and performance self-assessment programs and implementation of control programs.

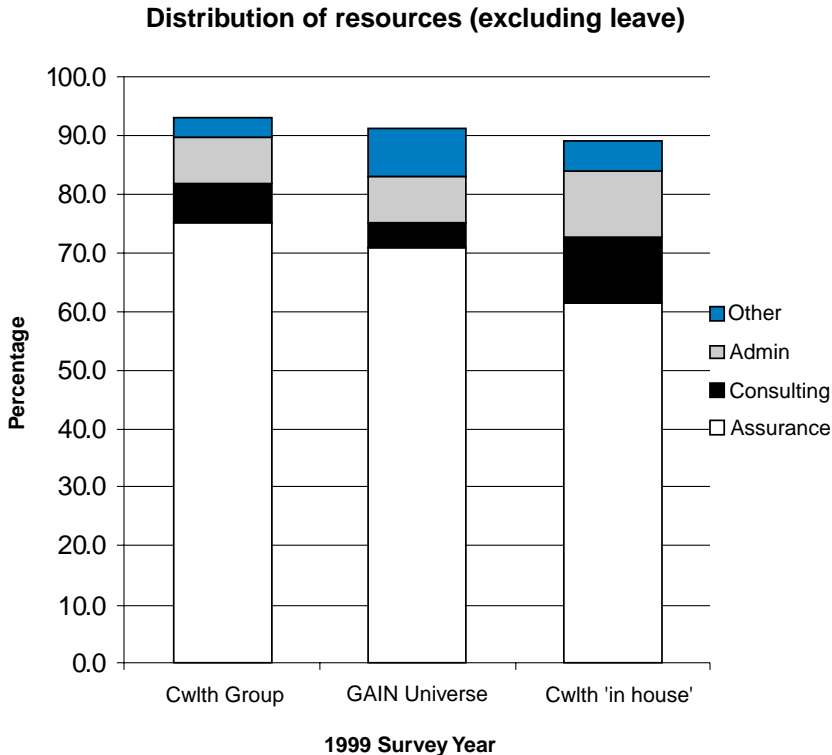
Distribution of resources between activities

3.7 The following figure summarises the resource split between internal auditing activities and other administrative activities and excludes employee leave. It compares the Commonwealth group with the GAIN Universe. It also includes an analysis of the resource split for those Commonwealth organisations that have not fully out-sourced internal audit.

3.8 The overall Commonwealth group shows similar results to the GAIN Universe. However, the group includes a significant proportion of internal auditing functions that are fully out-sourced. For these out-sourced functions there is little or no administrative time reported.

3.9 Additional analysis shows that 72.5% of available resources are applied to auditing activities for Commonwealth functions that are in-house or use some level of contracted-in resources. The right hand bar (Commonwealth in-house) in the chart excludes fully out-sourced functions.

Figure 3.1
Comparison of the allocation of internal audit resources



Notes:

1. **Formula used:** total hours per activity / total available hours
2. Leave has been excluded to emphasise the distribution of effort for actual hours worked. The gap between the bar coverage and 100% represents average leave used.
3. 'Other' includes travel.

3.10 It is also apparent that the Commonwealth group has shifted the balance of its audit activities from 'assurance' toward 'consulting' at a greater rate than the GAIN universe. The in-house and co-sourced internal audit functions report that 11% of their resources are being applied to consulting activities such as facilitating control self-assessment. This compares with 4% of the GAIN universe.

3.11 By contrast, those Commonwealth organisations with fully out-sourced functions reported that their resources were applied solely to 'assurance' activities.

Analysis of assurance activities

3.12 The following table shows the distribution of resources between the various 'assurance' activities.

Table 3.2

Comparison of resource allocation between assurance activities

<i>Type of review</i>	<i>Commonwealth Group (%)</i>	<i>GAIN Universe (%)</i>
Operational	20	28
Financial	15	17
Compliance	21	14
Information Technology	10	13
Integrated	30	24

Notes:

1. **Formula used:** total hours per review type / total assurance hours
2. 'Integrated' refers to a combination of two or more review types as part of the one audit.
3. Both groups reported a small percentage of miscellaneous activities of around 3% to 4%. These have been excluded from the table which, as a result, does not add to 100%.

3.13 The mix of assurance activity is comparable between the two study groups. One difference is that the Commonwealth group applies more resources in compliance reviews and proportionately less in operational reviews.

3.14 Within the 'compliance' review type, further analysis shows the Commonwealth group devoting greater resources towards procedures for preventing or uncovering illegal and questionable payments. All participants in the 1999 study indicated they carried out reviews of this type in the past three years, with 68% reporting regular reviews. This compares with 45% in the GAIN Universe carrying out regular reviews of this type.

3.15 This difference may indicate an appropriate response by organisations within the public sector to the importance placed on 'compliance' by the Parliament, chief executive officers and audit committees as a result of the corporate governance model adopted by the public sector

Analysis of consulting activities

3.16 The following table summarises the change in participation rates in various consulting activities between the 1997 and 1999 study years. The participation rates for the GAIN Universe in this period have remained largely unchanged. The 1999 result for the Universe is given for comparative purposes.

Table 3.3
Participation rates in ‘consulting’ activities

Activity	Commonwealth Group		GAIN 1999	
	1997	1999	Universe	‘World Class’
Re-engineering	31%	52%	43%	65%
Control Self-Assessment	29%	52%	45%	76%

Notes:

1. **Formula used:** internal audit functions participating in activity / total survey population.
2. The GAIN Universe reported 45% for both activities in 1997.

3.17 There has been a significant increase in the participation rates of Commonwealth internal audit in the above activities. This is consistent with the result for the above analysis of resource allocation between activities. It also corresponds with the Commonwealth group reporting that 27% of their assurance audit activity involves the use of control self-assessment as a formal step in their audits.

Conclusion on the quantity dimension

3.18 The Commonwealth group compares favourably with its peers in terms of the allocation of resources between activities. In fact, it is ahead of the peer group in terms of its uptake of ‘consulting’ activities, particularly with reference to control self-assessment. However, it still has some way to go when compared to the GAIN ‘World Class’ group.

3.19 Nevertheless the result for this benchmark overall is very positive. It is particularly pleasing to observe that the need for internal audit to consider its participation rate in control self-assessment was a specific recommendation of the 1997 Audit Report on Internal Audit¹⁸.

3.20 There remains some scope for those in-house and co-sourced internal audit functions to adjust the allocation of time between administrative and audit tasks. As indicated in Chapter 2 – Input Benchmarks – it is acknowledged that the manner in which an organisation uses its internal audit resources, particularly when out-sourced, is dependent on many inter-related objectives. Some relate to the reform agenda; others are concerned with ensuring basic compliance is achieved prior to venturing into the value-adding services. Nonetheless, the redistribution of resources between ‘assurance’ and ‘consulting’ by out-sourced internal audit may possibly deliver better results to the organisation. In an out-sourcing arrangement it should be noted that management of the internal audit function has remained within the organisation. Administrative effort from management is required to ensure success of the contracted arrangement.

¹⁸ Op. cit., Audit Report No.46 of 1997-98, page 22.

Time dimension benchmarks

3.21 The two sets of metrics available from the GAIN Questionnaire in relation to time examine the distribution of time within audit tasks (assurance activities) and the cycle times for these activities. Cycle time refers to the time from completion of audit fieldwork to the issue of the report. There is no equivalent information available for consulting activities.

Distribution of time within audits

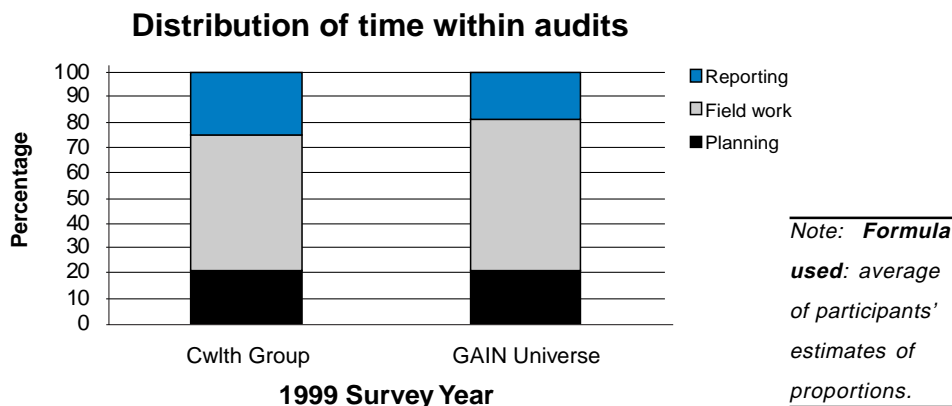
3.22 The following Figure compares the time taken on the planning, fieldwork and reporting processes for a typical audit. The chart shows that the Commonwealth group's allocation of resources is commensurate with that of the international peer group.

3.23 The results for the 1999 study year are also consistent with prior years'. The GAIN Universe ratios have remained the same over the three-year study period. The Commonwealth group has had a slight increase in the allocation of time to reporting, from 22% in 1997. However, this is likely to be a result of change in composition of the group, rather than any indication of a trend.

3.24 Given the consistency of proportions reported for this metric over the three-year period of the study it is considered to be a useful benchmark for future internal audit resource allocation planning.

Figure 3.2

Allocation of effort across planning, fieldwork and reporting



Audit life cycle timing

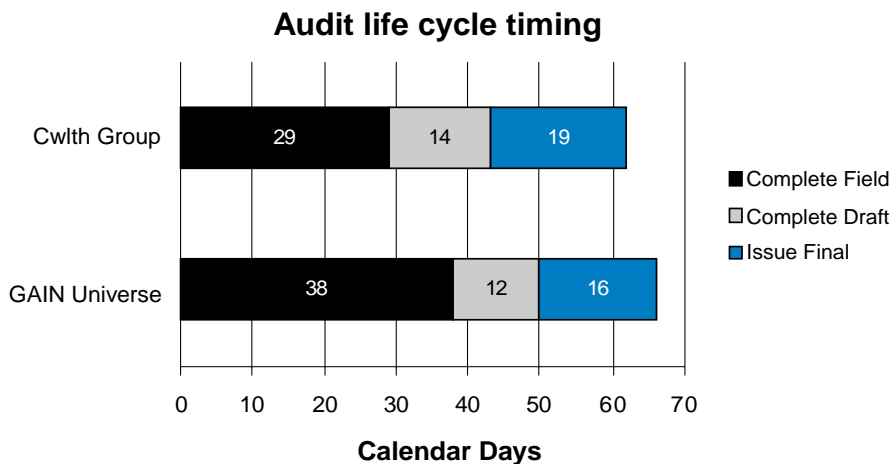
3.25 The audit report is the primary communication vehicle for internal audit. The cycle time from the completion of audit fieldwork to the issue of the report is generally regarded to have a critical impact on the perceptions of quality and effectiveness.

3.26 The following Figure compares the average elapsed time to complete internal audit fieldwork and to issue an internal audit report, as reported by the study participants.

3.27 The Figure shows that, on average, the Commonwealth group is able to complete an audit in fewer elapsed days than the international peer group—62 days compared to 66 days. However, further analysis shows that this difference is attributable to the shorter average elapsed days duration of fieldwork.

Figure 3.3

Analysis of time taken to complete an audit (1999 survey year)



Notes:

- Formula used:** average elapsed days as computed by participants / total participants.
- Three quarters of the Commonwealth study group achieved elapsed times of 80 days or less. The lowest quartile for this group ranged from 15 to 25 days for a complete audit. The median for the group was 50 calendar days from commencement of planning to issuance of a final report.

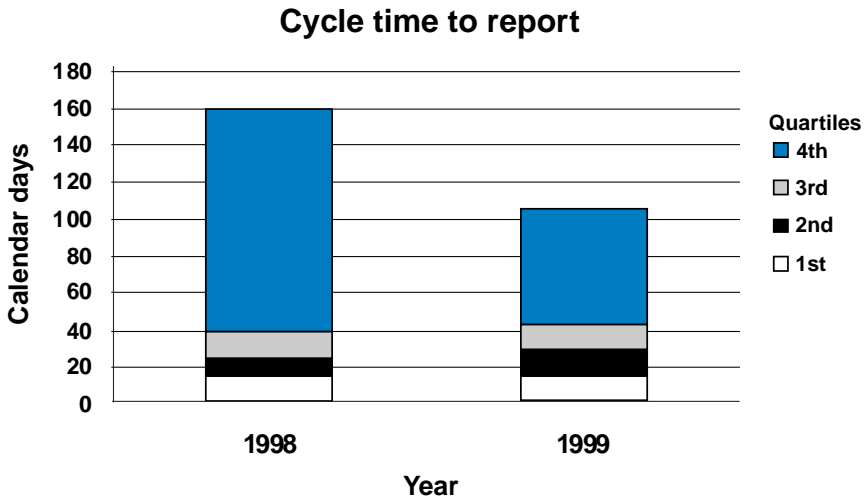
3.28 When the reporting phase of the audit is considered, the Commonwealth group (average 33 days) takes longer than the international group (average 28 days).

3.29 The elapsed time for reporting was a matter of concern raised in the 1997 audit¹⁹. As in the 1997 Report, a quartile analysis of the Commonwealth's results has also been undertaken to gain a better understanding of the spread of the reported data.

3.30 In 1997 it was reported that the top 25% of the Commonwealth group required at least 50 days from the completion of fieldwork to the issuance of a final internal audit report. In contrast, the lowest quartile for the Commonwealth was below 14 days.

¹⁹ Op. cit., Audit Report No.46 of 1997-98, pages 26 to 27.

Figure 3.4
Analysis of the audit reporting time cycles



Notes:

1. **Formula used:** average time from completion of fieldwork to issue final report / total participants.
2. The only significant movement has been in the top quartile where there has been a large fall in the maximum report cycle time.

3.31 Figure 3.4 shows that this situation has not changed for the majority of the survey group—it is only the top quartile that has experienced a significant reduction in the elapsed reporting time.

3.32 Three quarters of the study group in 1998 and 1999 required up to 40 calendar days from the completion of fieldwork to issue of a final internal audit report. The median remains around 25 to 30 days, and the first quartile ranges from 5 to 14 days. The range of results is large, this could be expected given the variance in size and complexity of audit reports. When evaluating cycle times internally organisations should have regard to the size and complexity of the report they are producing.

Conclusion on the time dimension

3.33 The Commonwealth group continues to experience longer cycle times in its reporting processes. The 1997 FCA Audit Report recommended that public sector organisations benchmark their reporting processes against better practice organisations to determine how best to reduce this cycle time. The lack of any significant downward movement in the majority of organisations studied suggests scope remains for some reduction.

Quality dimension benchmarks

3.34 The metrics used to consider the quality of internal audit processes relate primarily to the form and nature of quality control utilised. Typically, internal audit will have in place quality control mechanisms

that operate throughout the audit process. This form of quality control is generally supplemented by a quality assurance program which reviews audits and audit processes after completion for conformity with standards and compliance with policies. Internal audit may also utilise client satisfaction surveys to determine the quality of their processes and outputs.

3.35 The metrics cannot, and do not, provide a direct insight into, or any indication of, the actual quality of internal auditing work.

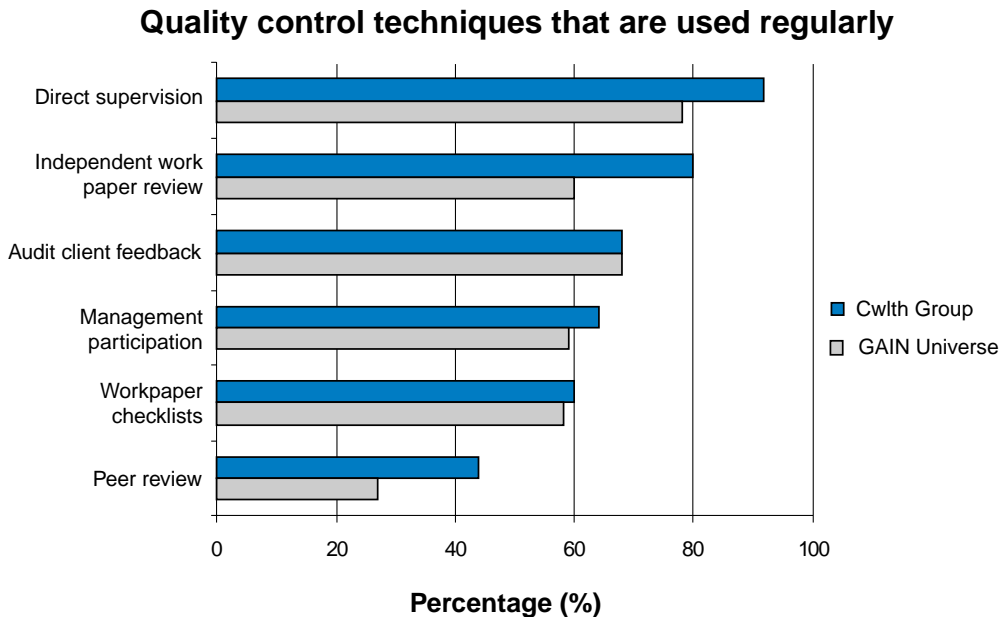
Quality control techniques

3.36 The following Figure summarises the techniques used by internal audit to maintain quality control. Study participants were asked to indicate whether they used each of the techniques regularly.

3.37 The Commonwealth group percentages were consistently higher than the international peer group in the 1999 study year. More importantly, there has been a significant increase in the use of direct supervision and review when compared to the 1997 study year. In that year only 68% of Commonwealth participants indicated they regularly used these two techniques. The growth in use of these techniques over the three year study period is positive and should contribute to a better quality product.

Figure 3.5

Analysis of quality control techniques used (1999 survey year)



Notes:

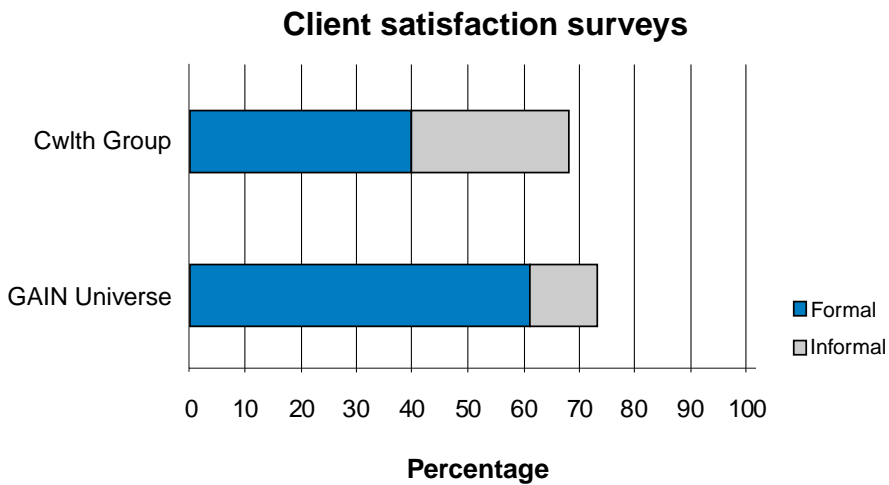
- Formula used:** average of participants' responses
- Direct supervision and independent work paper review are generally regarded as the most effective quality control techniques.

3.38 With regard to audit client feedback one approach commonly adopted is to utilise client satisfaction surveys. These may be formal or informal and may be undertaken at the end of each assignment or less frequently, generally annually.

3.39 Figure 3.6 summarises the use of these alternative approaches.

3.40 With regard to this particular form of quality control, the Commonwealth survey group does not widely embrace the use of formal client satisfaction surveys as a means of evaluating the quality of their processes and outputs.

Figure 3.6
Use of formal and informal client satisfaction surveys



Note: Where formal surveys were used, more than 80% of both groups indicated these were undertaken at the end of each assignment.

Quality assurance programs

3.41 The Institute of Internal Auditors has established guidelines for implementing and undertaking an external peer-review, quality assurance program. Such programs provide the opportunity to analyse systematic weaknesses and identify areas for improvement. In the 1997 Audit Report²⁰ it was noted that only 16% of surveyed organisations in the Commonwealth had an external quality assurance program in place, compared to 25% for the GAIN Universe.

3.42 The 1999 survey group for the Commonwealth reported that 68% had undertaken an external quality assurance review in the past three years. Of these almost half had utilised the Institute’s Guidelines for such reviews.

²⁰ Op. cit., Audit Report No.46 of 1997-98, page 26.

3.43 The international peer group reported on average that 29% of organisations had undertaken an external peer review in 1999.

Conclusion on the quality dimension

3.44 There has been a significant improvement in the Commonwealth group over the past three years in relation to the adoption and use of quality control and quality assurance techniques.

3.45 Further attention is still required in relation to the benefits from the use of client satisfaction surveys. Such surveys serve not only to obtain client feedback, but also to forge closer relationships with internal audit's clients—a key aspect of the new definition of internal auditing.

Overall conclusion on internal audit processes

3.46 The Commonwealth study group has made significant advances in most respects and is ahead of its international peers in its adoption of 'consulting' activities. This augurs well for its ability to add value and remain responsive to organisational needs.

3.47 However, where internal audit functions are fully out-sourced their role remains a more traditional, assurance-based function. In these cases, there is scope for the audit committee and the chief executive to consider whether a move toward the 'consulting' activities discussed in this Report is warranted or would be beneficial.

3.48 More generally, attention needs to be paid to reporting cycle times and to the level of administrative activities undertaken by in-house auditors compared to their efforts on audit activities.

4. Output benchmarks

4.1 The outcomes/outputs budgetary reforms emphasise the need to plan and manage the cost of organisational outputs. Analysis of the outputs internal audit can assist in the management and cost control of this important corporate governance function.

4.2 To that end this chapter deals with cost and quantity metrics established by the ANAO using the GAIN data for the Commonwealth group. As the metrics have been defined by the ANAO, no comparative international benchmarks are available at this time. Metrics for the quality dimension are based on the acceptance and implementation of internal audit recommendations.

4.3 The following table summarises the metrics used in this chapter.

Table 4.1
Internal Audit Output Benchmarks

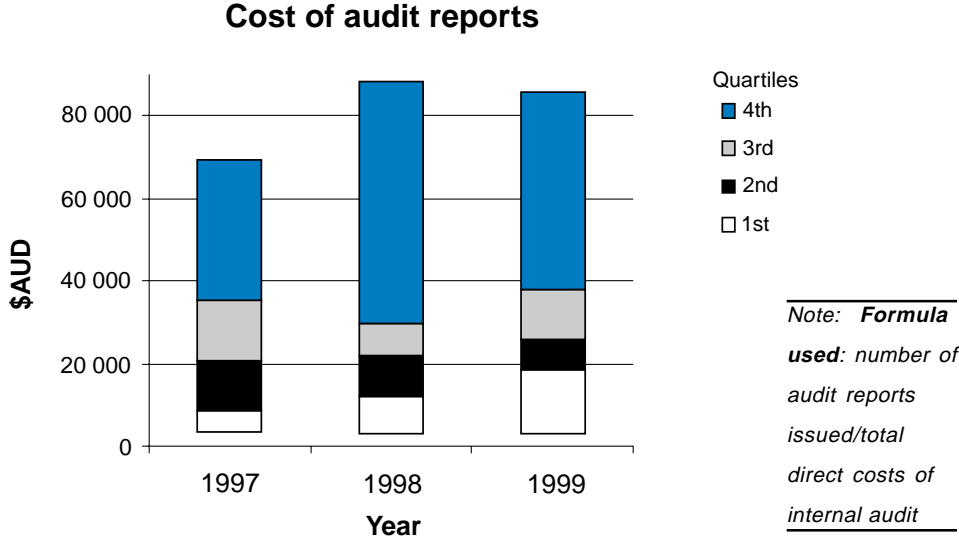
<i>Dimension</i>	<i>Metric</i>	
Cost	Average cost per audit report	Figure 4.1
Quantity	Average reports per auditor	Figure 4.2
Quality	Content of reports and report process Acceptance and implementation of recommendations	Figure 4.3

Cost dimension

4.4 The metric established for this benchmark is the cost per audit report (Figure 4.1). This has been derived by dividing the total number of reports produced each year by the total cost of the internal function, as reported by the survey participants.

4.5 As with most metrics in this Report a quartile chart has been used to represent the spread of results. Understandably, there is not necessarily a good or bad result for this metric. The cost per report is a direct consequence of the scope, boundaries and complexity of the audit activity, which will vary between organisations. The data demonstrates the range of outcomes for the Commonwealth. This range may be utilised to determine an internal benchmark, to be used for budgeting and for scaling audit activity. The size and complexity of an internal report will have a significant impact on associated costs. A benchmark determined internally should be based on current reporting practice and take into account various influencing attributes of the type of audit report produced.

Figure 4.1
Analysis of 'unit' cost per report

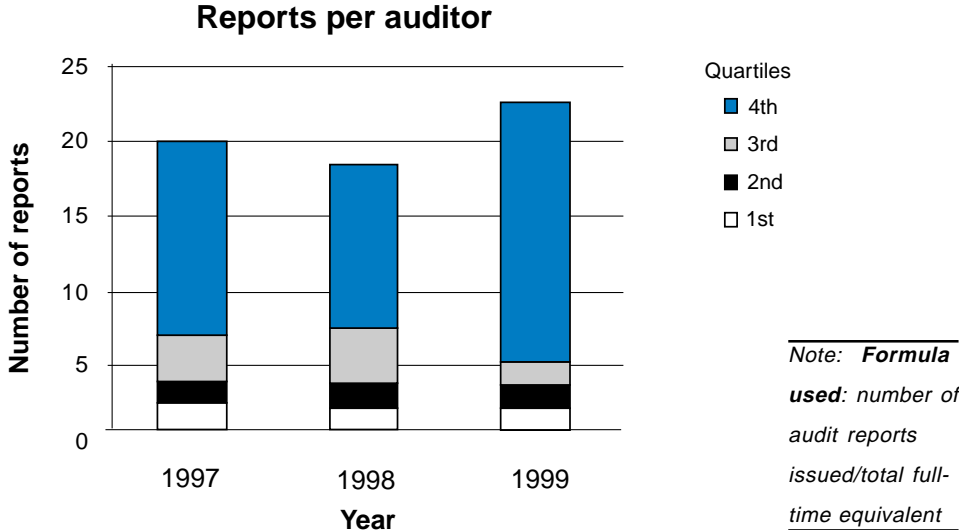


Quantity dimension

4.6 As with the above metric, the data provided in Figure 4.2 can be useful in determining appropriate internal benchmarks. The organisational context must be considered when establishing such benchmarks.

4.7 As with the metric on cost of audit reports, there is no overall good or bad result for this metric. The quartile chart shows the spread of results across the Commonwealth group.

Figure 4.2
Analysis of 'unit' output per auditor



4.8 The median has remained between 3 and 4 reports per auditor per year. The upper bound in 1999 is 23 reports. Three quarters of the survey group produced less than 7 reports per auditor in 1997 and 1998, this figure fell to 5 in 1999. The change may be due to the increase in other consulting activities undertaken by internal audit units, which may not produce an audit report. These include control risk self-assessment workshops and business re-engineering processes. This may also represent the production of more detailed or complex audit reports.

Quality dimension benchmarks

4.9 The metrics used for the quality dimension consider how internal audit findings are represented to management and the extent to which internal audit recommendations are implemented. The former metric considers the quality of the process, whereas the latter addresses the effectiveness of internal audit outputs.

Report content and process

4.10 The 1997 Audit Report²¹ found that all the Commonwealth group adopted 'best practice' approaches to reporting by providing draft reports for management comment, and by incorporating these comments in the final report. The significant majority of organisations (92%) also included an executive summary in the final report.

4.11 These practices continue to be universally adopted by the Commonwealth group. As in 1997, this result is better than that achieved by the international peer group, which utilises these approaches in about 90% of organisations.

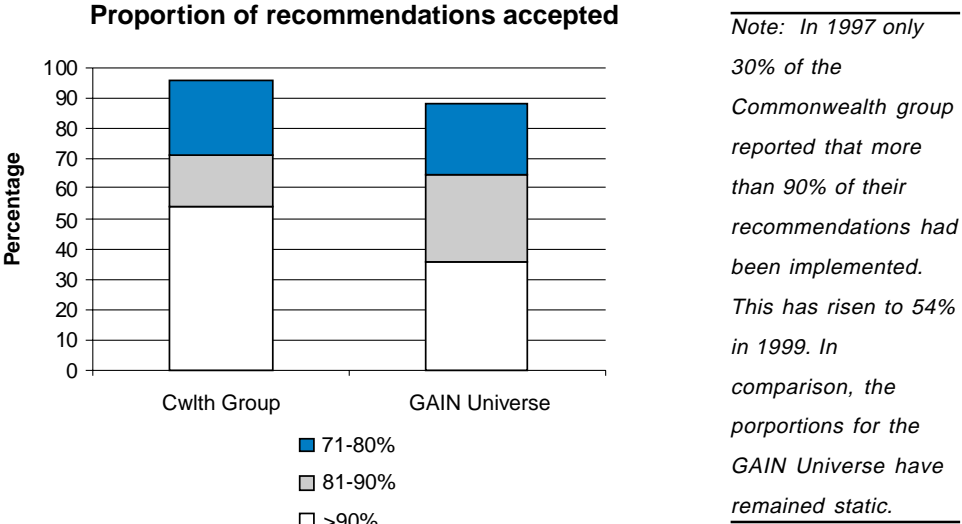
4.12 The ANAO view is that these are 'better practice' approaches to reporting because they involve all levels of management and for this reason are more likely to receive the support of line management, and it is through line management that organisational response to audit findings can best be orchestrated. Such approaches also recognise that the audit report is prepared for a number of different audiences with differing information needs.

²¹ Op. cit., Audit Report No.46 of 1997-98, pages .26 to 27.

Implementation of recommendations

4.13 Management acceptance and implementation of audit recommendations is the final step in the audit process. The level of this acceptance is an indicator of the relationship between audit and its clients. Figure 4.3 shows that there is a high level of acceptance of recommendations in both the Australian Commonwealth group and the GAIN Universe

Figure 4.3
Analysis of acceptance of recommendations – 1999 survey results



5. Key performance indicators

5.1 The ANAO has distilled from the Questionnaire data against each of the key performance indicators that are considered to represent useful benchmarks across cost, time quality and quantity dimensions. These were the metrics used as the evaluation criteria for this study. The following table details the types of key performance indicators used by internal audit to assess and monitor their performance. Appendix 2 to this Report provides a work sheet to enable internal audit to record their performance and compare it to 'world class' and Australian Public Sector 'common practice'.

5.2 The primary purpose of these benchmarks is to suggest quantitative data (metrics) on aspects of performance of the internal audit function. This data can be used by all public sector organisations to develop appropriate benchmarks for their own environment. However, without further investigation of the differences between the public and private sector environments, the 'world class' benchmarks below should be seen as indicative only.

Table 5.1
Key performance benchmarks

	World Class	Common Practice
INPUTS		
Cost		
Average cost per internal auditor <i>(total direct costs/total full-time equivalent staff (includes contractors))</i>		\$110 000
Cost of internal audit as a % of total expenditure <i>(total internal audit costs/total organisational expenditure)</i>	0.01%	0.08%
Quantity		
Number of organisational employees per auditor <i>(total employees/internal audit staff)</i>	1342	695
Organisational expenditure per auditor <i>(total organisational expenditure/total full-time equivalent internal audit resources)</i>		\$76m
Quality		
% of staff with:		
undergraduate degree (or equivalent)		66%
post-graduate qualification		5%
% of staff with Professional designations	71.5%	58%
Years of experience	11.3yrs	15.7yrs
Turnover of internal audit staff		20%
Average training hours per auditor per year	77hrs	39hrs

Note: **World class** practice is defined as the average result for the 16 organisations considered by GAIN survey participants to be at the leading edge of the internal audit profession. Benchmarks are indicated where available.

Common practice is defined as the average result of the 27 Commonwealth organisations participating in the 1999 GAIN survey.

	World Class	Common Practice
PROCESSES		
Quantity		
Distribution of resources between activities		
Assurance auditing		61.5%
Consulting		11.0%
Administration		11.3%
Other		5.2%
<i>(total hours per activity/total available hours)</i>		
Breakdown of assurance activities		
Operational audits		20%
Financial audits		15%
Compliance audits		21%
Information Technology audits		10%
Integrated audits		30%
<i>(total hours per review type/total assurance hours)</i>		
Breakdown of consulting activities		
Re-engineering	69%	52%
Control self-assessment	75%	52%
<i>(internal audit functions participating in activity/total survey population)</i>		
Time		
Distribution of time within audits		
Planning		21%
Fieldwork		54%
Reporting		25%
<i>(average of participants' estimates of proportions)</i>		
Audit life cycle timing		
Completed fieldwork		29 days
Completed draft report		14 days
Issue final report		19 days
<i>(average time from completion of fieldwork to issue of final report/total participants)</i>		

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	World Class	Common Practice
PROCESSES		
Quality		
Quality control techniques		92%
Direct supervision		80%
Independent work paper review		68%
Audit client feedback		64%
Management participation		60%
Work paper checklists		44%
Peer review		
<i>(average of participant's responses)</i>		
% of organisations which had an external quality assurance review in the past three years		68%
% of organisations which use client satisfaction surveys:		
Formal		40%
Informal		28%

Note: **World class** practice is defined as the average result for the 16 organisations considered by GAIN survey participants to be at the leading edge of the internal audit profession. Benchmarks are indicated where available.

Common practice is defined as the average result of the 27 Commonwealth organisations participating in the 1999 GAIN survey.

	World Class	Common Practice
OUTPUTS		
Cost		
Unit cost per report <i>(total direct costs of internal audit /number of audit reports issued)</i>		\$19 000
Quantity		
Reports per auditor		3.5
Quality		
% of recommendations accepted		90%

Note: **World class** practice is defined as the average result for the 16 organisations considered by GAIN survey participants to be at the leading edge of the internal audit profession. Benchmarks are indicated where available.

Common practice is defined as the average result of the 27 Commonwealth organisations participating in the 1999 GAIN survey.

6. Audit Report No.46, 1997-98, Internal Audit

6.1 The nature of a benchmarking study and the report are based on the information provided by public sector organisations in response to a questionnaire. Consequently, the standard of evidence relied on for the study must be considered persuasive rather than conclusive, based as it is on self-assessment by organisations. The quality assurance processes undertaken by the ANAO over the data, are not of themselves, sufficient to guarantee its integrity.

6.2 Nevertheless, the responses to the Questionnaire do in a number of cases provide some indication of organisations' response to, and changes made following, the recommendations included in Audit Report No.46.

6.3 The following table details the recommendations and, where appropriate, provides information and/or a cross-reference to where this Report provides an update on performance achieved to date.

Table 6.1
Audit Report No.46 of 1997-98 - recommendations

<i>Recommendations</i>	<i>Comment</i>
<p>In relation to current internal audit charters it is recommended that:</p> <ul style="list-style-type: none"> • all organisations review and confirm the continued relevance and appropriateness of their internal audit charters; and • the chief executive be responsible for formally approving the internal audit charter. 	<p>Nearly all Commonwealth organisations now have a current internal audit charter in place. In 1999 96% of survey respondents indicated they had an internal audit charter in place. In 1998 this figure was 92% and in charter in place. In 1998 this figure was 92% and in 1997 86%.</p> <p>The GAIN Questionnaire does not offer insight on who has taken responsibility for formally approving the audit charters.</p>
<p>In relation to the head of internal audit's relationship with the audit committee, it is recommended that the head of internal audit:</p> <ul style="list-style-type: none"> • attends all audit committee meetings; and • meets privately with the audit committee (or at least the Chair of the committee) at least as frequently as the committee itself meets each year. 	<p>It has become standard in the Commonwealth for the head of internal audit to attend audit committee meetings. All respondents in 1999 indicated that the head of internal audit typically attended audit committee meetings.</p> <p>However, as in prior years, less than half of the respondents indicated that the head of internal audit met privately with the audit committee as often as the committee itself met.</p>

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	<p>So, while the relationship and communication between heads of internal audit and their committees has progressed, there remains significant scope for further improvement.</p>
<p>In relation to achieving an appropriate client and risk focus, it is recommended that internal audit:</p> <ul style="list-style-type: none"> • as part of the planning process, obtain from line management their views of the key business risks facing the organisation, and solicit their concerns and perspective on the operation of key business processes; and • develop a systematic, formal approach to planning which demonstrates clear linkages between their business risk assessments and their strategic and operational plans. 	<p>For the duration of the survey, nearly all organisations (over 95%) consistently indicated that they use a risk process to plan audit activity.</p> <p>It is pleasing to observe that close to 90% of Commonwealth organisations now actively seek the input of management when preparing their internal audit plans. The percentage of survey respondents conducting interviews with management as part of their planning process has increased from less than 70% in 1998 and 1997 to 87% in 1999. The involvement of management in planning ensures the attitude and expectations of management are in alignment with internal audit and this is essential to effective audit activity within the organisation.</p> <p>The GAIN Questionnaire offers no insights into the clarity of links between risk assessments and strategic and operational plans.</p> <p><i>General analysis and discussion of assurance activities can be found in Part 3 of this Report at paragraphs 3.6 – 3.21.</i></p>
<p>In relation to other assurance mechanisms, it is recommended that organisations consider the role that internal audit could take in the introduction of risk and control self-assessment techniques, as part of their overall governance arrangements.</p>	<p>There has been a significant increase in the participation rates of Commonwealth internal audit in risk and control self-assessment techniques and the re-engineering of business processes. The Commonwealth group compares favourably with its peers in terms of the allocation of resources between activities. It is ahead of the peer group in terms of its uptake of 'consulting' activities, particularly control self-assessment.</p> <p><i>Analysis of the introduction of consulting activities is discussed generally throughout paragraphs 3.6 – 3.21 of this Report. Consulting activities, including risk and control self-assessment, are specifically discussed at paragraphs 3.16– 3.17.</i></p>
<p>In relation to the number and mix of internal audit resources it is recommended that:</p> <ul style="list-style-type: none"> • chief executives evaluate whether the resources they apply to the internal audit function effectively meet the risk profile of 	<p>The Commonwealth group has shifted the balance of its audit activities from 'assurance' towards 'consulting' at a greater rate than the GAIN universe. The in-house and co-sourced internal audit functions report that 11% of their resources</p>

<p>the organisation as well as complementing the other relevant review and monitoring mechanisms in place;</p> <ul style="list-style-type: none"> • organisations evaluate their professional development policies in relation to their internal audit staff profiles to ensure that the level and type of training is consistent with the long-term strategies of the internal audit unit; and • the chief executive, in consultation with the audit committee, establishes minimum academic and professional qualifications for internal audit staff, particularly, for the head of the internal audit unit. 	<p>are being applied to consulting activities such as facilitating control self-assessment. This compares with 4% of the GAIN universe.</p> <p>The result for training hours per auditor for both benchmark groups is consistent with past data and trends. The Commonwealth group has historically averaged around 40 hours per auditor per annum, which is the standard adopted by the professional accounting bodies in Australia. The GAIN universe has trended around 60 hours per annum per auditor. The gap is brought into sharper relief when compared to the GAIN 'world class' group. This group invests twice the amount of hours training, per auditor, around 80 hours per annum.</p> <p>The survey indicated that undergraduate degree education levels had improved to an average of 73% for the Commonwealth group from 43% in 1989. This result has been sustained over the past two years and is commensurate with the GAIN universe.</p> <p>The Commonwealth group also consistently performed better than the GAIN universe for the proportion of staff with professional qualifications.</p> <p><i>The academic and professional qualifications of internal auditors and their professional development are discussed at paragraphs 2.34 – 2.47 of this Report.</i></p>
<p>In relation to continuous improvement activities and measurement of internal audit performance effectiveness, it is recommended that:</p> <ul style="list-style-type: none"> • internal audit units develop appropriate performance indicators to measure the cost-effectiveness, timeliness and quality of their services and products; and • 'in-house' internal audit units adopt the use of continuous improvement tools as a means of ensuring their audit, management and administrative processes follow better practices. 	<p>There has been a significant improvement in the Commonwealth group over the past three years in relation to the adoption and use of quality control and quality assurance techniques. The group now out-performs the international peer group in these respects.</p> <p>Attention is still required in relation to the use of client satisfaction surveys.</p> <p><i>Client satisfaction surveys are discussed specifically at paragraphs 3.38 – 3.41 of this Report as part of general analysis of the quality of internal audit processes (Part 2, paragraphs 3.34 – 3.46).</i></p>

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In relation to reporting processes it is recommended that:

- those internal audit units with report cycle times in excess of 14 days, and in particular those in excess of 30 days, benchmark their processes against better practice organisations to determine how best to reduce their cycle times.

The Commonwealth group continues to experience longer cycle times in its reporting processes. Three quarters of the study group in 1998 and 1999 required up to 40 calendar days from the completion of field work to issue a final internal audit report. The median remains around 25 to 30 days, and the best quartile ranges from 5 to 14 days. The lack of any significant downward movement in the majority of organisations studied suggests significant scope remains for improvement.

Audit Life Cycle timing is analysed in this Report at paragraphs 3.25 – 3.33. This analysis forms part a general discussion of time dimension benchmarks in relation to internal audit processes in Part 3, paragraphs 3.21 to 3.33.

Appendices

Appendix 1

About the Audit

Background

The Commonwealth's internal audit function was first examined by the ANAO in 1989²². The 1989 audit of internal audit comprised a survey phase, a report to Parliament and a Better Practice Guide (BPG). That audit was followed up by a Financial Control and Administration (FCA) audit²³ reported in 1998, and a benchmarking program which commenced in 1997 and was repeated in 1998 and 1999. Information from the first year of the benchmarking program contributed to the FCA audit by helping identify which areas of internal audit required close examination.

The two audits and benchmarking information combined with extensive research on the topic facilitated production of the 1998 BPG *New Directions for Internal Audit*.

This Report has focused on analysing information from the three-year benchmarking program, but where possible it also assessed the extent to which action had been taken on the recommendations in the FCA audit.

The benchmark instrument

The 'GAIN'²⁴ Questionnaire has been used for three consecutive years. It was developed by the Institute of Internal Auditors (IIA) as a service to its members and is used to collect data with which to populate the GAIN database annually. The Questionnaire collects responses to detailed questions about internal audit activities, costs and methodologies from between 600 and 700 internal audit units around the world.

The ANAO supplemented the GAIN Questionnaire with a number of questions designed to capture information specifically relevant to the public sector and our current reform environment. Two additional sections were added along with additional questions throughout the Questionnaire. The two sections covered performance indicators and contract management in relation to internal audit and other core business processes.

In order to maintain comparability of data collected in the Commonwealth with the GAIN database, and over time, alterations to the original Questionnaire were kept to a minimum. Additional questions

²² Audit Report No.50, 1991-92, *Internal Audit in Selected Government Organisations*, June 1992.

²³ Audit Report No.46 1997-98, *Internal Audit*, May 1998

²⁴ *Global Auditing Information Network*, Quality Auditing Services, Institute of Internal Auditors, Altamonte Springs, USA

were only added where ANAO perceived agencies had a particular interest or would benefit significantly from feedback in that area.

This additional data enabled the ANAO to carry out relevant analysis of topical issues in the Australian Government sector. As responses to the additional questions were only collected from the ANAO group, there are no international or world class comparisons for these benchmarks.

World class benchmarks

In order to make best use of data obtained through the survey process, a number of relevant comparison groups were constructed according to industry sector, size or nature of activities.

The comparison groups commonly used in this Report are the entire GAIN universe, the Australian Commonwealth public sector and the 'other government' group (this grouping has been available since 1998 only). Where appropriate, other comparison groups have also been used as reference points.

One such comparison group is the 'World Class' group. This group is defined as being 'at the leading edge of the internal audit profession, providing outstanding audit service in an economical, efficient and professional manner while adding value to their customers'. Selection of the group was based on reputation. Benchmark data for organisations in the group were then averaged to determine the world class benchmark points of comparison used in this and prior reports. The GAIN report has the following comments in relation to the 'World Class' group:

These organisations averaged fewer resources than most other members of the GAIN program in calculations for revenue per auditor and employees per auditor. One of the keys to the success of the World-Class group seems to lie in their drive to make the most of available resources. Although world class auditing staff members average slightly fewer years of experiences than the average for their counterparts at other organisations, they receive more training and are significantly more likely to hold the certified internal auditor designation. A high percentage of World Class organisations utilise practices such as initiating corporate wide education programs on internal control and having customers conduct parts of audits. As a group they are very pro-active on quality assurance programs such as self-assessment activities and emphasising TQM principles – 80% of the world class organisation reported conducting internal and external quality assurance reviews based on the IIA's Standards of Code and Ethics. The world class auditing functions are also significantly more likely than their peers to use staff rotation practices with operating divisions²⁵.

²⁵ Institute of Internal Auditor's GAIN Report 1999. W1

The group comprised;

Aetna Inc.
Ameritech,
Asea Brown Boveri,
Bell Canada,
Carolina Power and Light,
the Coca Cola Company,
DuPont Company,
Exxon Corporation,
Federal Express Corporation,
Ford Motor Company,
IBM Corporation,
JCPenney Company Inc,
Johnson & Johnson,
Microsoft Corporation,
Motorola,
Southern California Edison and
TRW Inc.

In some instances it was appropriate to make comparison with 'Global' benchmarks. These benchmarks were taken from Arthur Andersen Global Best Practices® Knowledgebase of 132, mainly private sector, organisations.

Performance information

The total cost of collecting benchmark information over three years was \$510,000 of which \$156,000 was incurred in 1997 and reported in Audit Report No.46 of 1997-98. A total of 122 questionnaires were completed by public sector organisations during the three years (49 in the first year, 48 in the second and 27 most recently). The average notional annual cost for each organisation was \$4000.

Use of the GAIN Questionnaire cost \$76,000 for the period 1997 to 1999. This cost was incurred in the first year of the survey and was reported in Audit Report No.46 of 1997-98.

Reporting

Although this Report analyses information from the past three years together, it is not the first or only report resulting from the benchmarking

of internal audit. Indeed, survey participants have regularly received full reports of their results for each year they have been involved with the GAIN study.

Prior to this Report, participants in the GAIN benchmarking process each received a full report showing the result of every question from the Questionnaire against relevant comparison groups for each organisation that completed the GAIN Questionnaire.

GAIN Questionnaires were generally completed in November and December of each year. Individual organisation reports were distributed by the ANAO in January and February of the subsequent year. In this respect the ANAO played a coordinating role for Commonwealth public sector agencies. The ANAO also reviewed questionnaire responses for reasonableness and to ensure consistency of data before and after processing by IIA, and provided additional commentary where suitable.

This year survey participants will receive an additional individual report prepared by the ANAO. This report will mirror the parliamentary report but will be individualised by showing organisations their results using the same charts and tables from this report. This will facilitate better interpretation of individual results for each participating agency. Participating organisations will also receive a completed key performance matrix (Appendix 2 refers). It is expected that, by providing this level of analysis, organisations will gain a valuable concise overview of where their organisation lies in relation to their peers and in the context of comparative key measures.

Other publications that have emerged as a consequence of the internal audit benchmarking program include the 1998 Better Practice Guide *New Directions for Internal Audit*.

The ANAO intends to continue benchmarking and reporting on internal audit as an important element of an organisation's corporate governance framework.

Appendix 2

Key Performance Indicators

The table below shows all key performance indicators used in this Audit Report, along with World Class and Australian Public Sector common practice results. The final column can be used by organisations to compare their own results.

World Class is defined as the average result for the 16 organisations considered by GAIN survey participants to be at the leading edge of the internal audit profession.

Australian Public Sector common practice is defined as the average result of the 27 Commonwealth organisations participating in the 1999 GAIN survey.

	<i>World Class</i>	<i>APS Common Practice</i>	<i>Organisation Result</i>
INPUTS			
Cost Average cost per internal auditor. (Costs are internal audit costs including salary, travel, training, consultants and costs incurred due to reorganisation or downsizing, and other direct costs. The number of internal auditors is the full time equivalent of professional (ie non support) audit staff including consultants and contractors)		\$110 000	
Cost of internal audit as a % of total expenditure. (Departmental expenditure only was included in the denominator for this metric)	0.01%	0.08%	
Quantity Number of organisational employees per auditor. (The number of auditors is the full time equivalent of professional (ie non support) audit staff including consultants and contractors)	1342	695	
Organisational expenditure per auditor. (This metric has been calculated using both Departmental and Administered expenditure to achieve consistency with prior years)		\$76m	

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<p>Quality</p> <p>% of staff with: undergraduate degree (or equivalent) post-graduate qualification. (Staff is defined as actual professional audit staff numbers (ie not FTE) including consultants and contractors)</p> <p>% of staff with Professional designations. (Staff here is defined as actual professional audit staff numbers (ie not FTE) including consultants and contractors, a professional designation exists where an individual is a member of a recognised professional accounting or audit body)</p> <p>Years of experience. (Includes experience in internal and external auditing and professional experience other than auditing)</p> <p>Turnover of internal audit staff</p> <p>Avg training hours per auditor per year</p>	<p>71.5%</p> <p>11.3yrs</p> <p>77hrs</p>	<p>66%</p> <p>5%</p> <p>58%</p> <p>15.7yrs</p> <p>20%</p> <p>39hrs</p>	
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	<i>World Class</i>	<i>APS Common Practice</i>	<i>Organisation Result</i>
PROCESSES			
<p>Quantity</p> <p>Distribution of resources between activities</p> <p>Assurance auditing</p> <p>Consulting</p> <p>Administration</p> <p>Other</p> <p>Breakdown of assurance activities</p> <p>Operational audits</p> <p>Financial audits</p> <p>Compliance audits</p> <p>Information Technology audits</p> <p>Integrated audits</p> <p>Breakdown of consulting activities</p> <p>Re-engineering</p> <p>Control self-assessment</p> <p>Time</p> <p>Distribution of time within audits</p> <p>Planning</p> <p>Fieldwork</p> <p>Reporting</p>	<p>69%</p> <p>75%</p>	<p>61.5%</p> <p>11.0%</p> <p>11.3%</p> <p>5.2%</p> <p>20%</p> <p>15%</p> <p>21%</p> <p>10%</p> <p>30%</p> <p>52%</p> <p>52%</p> <p>21%</p> <p>54%</p> <p>25%</p>	

Audit life cycle timing			
Completed fieldwork		29 days	
Completed draft report		14 days	
Issue final report		19 days	
Quality			
Quality control techniques			
Direct supervision		92%	
Independent work paper review		80%	
Audit client feedback		68%	
Management participation		64%	
Workpaper checklists		60%	
Peer review		44%	
% of organisations which had an external quality assurance review in the past three years		68%	
% of organisations which use client satisfaction surveys:			
Formal		40%	
Informal		28%	

	<i>World Class</i>	<i>APS Common Practice</i>	<i>Organisation Result</i>
OUTPUTS			
Cost Unit cost per report. (Costs are internal audit costs and include salary, travel, training, consultants and costs incurred due to reorganisation or downsizing, and other direct costs.)		\$19 000	
Quantity Reports per auditor. (The number of internal auditors is the full time equivalent of professional (ie non support) audit staff including consultants and contractors)		3.5	
Quality % of recommendations accepted		90%	

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Australian Customs Service

Audit Report No.11 Performance Audit
Knowledge System Equipment Acquisition Projects in Defence
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