

The role of the Audit Committee in assuring organisational integrity

LEWIS RANGOTT, EXECUTIVE DIRECTOR CORRUPTION PREVENTION, ICAC

STEPHEN HORNE, ARC CHAIR

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New ICAC guidance



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NSW INDEPENDENT COMMISSION
AGAINST CORRUPTION

Dealing with Corruption,
Fraud and the ICAC:
the role of public sector Audit
and Risk Committees

September 2020

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The importance of ARCs

- Typically, individuals tend not to run for office primarily because they are interested in governance and integrity
- ARCs are an undervalued and sometimes neglected part of a fraud & corruption control framework
- Some ICAC investigations have highlighted opportunities for ARCs to prevent or detect serious corrupt conduct

Key messages

- Oversight of overall fraud & corruption control framework
- This includes procedures for investigations and whistleblowing (but not micromanagement of individual cases)
- Internal audits and RM that addresses F&C risk
- Management of probity

The view from the ARC



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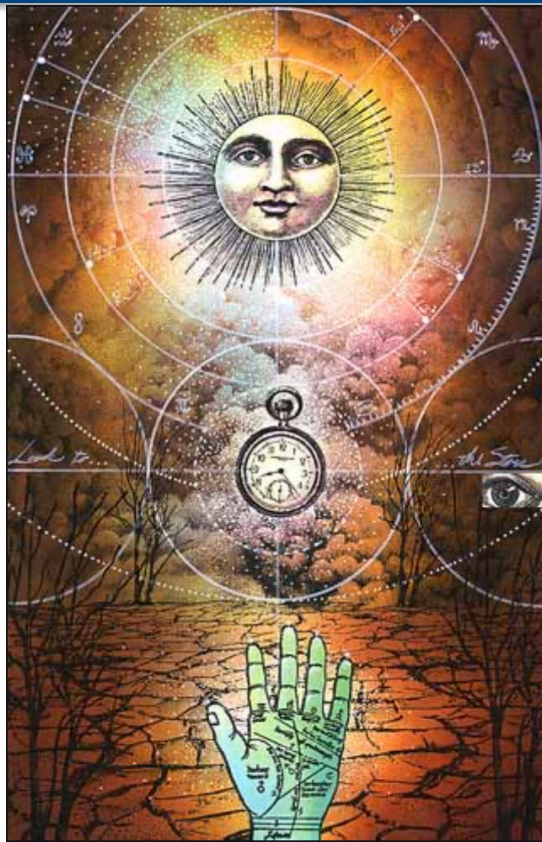


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Beyond the ARC Charter



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ARC skillset no. 135:
mysticism

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Audit Committee insight



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Exhibit 1 – Common Sources of Information for Audit and Risk Committees



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**White Paper –
Collaborative Reporting**

Audit Committee insight



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Exhibit 1 – Common Sources of Information for Audit and Risk Committees



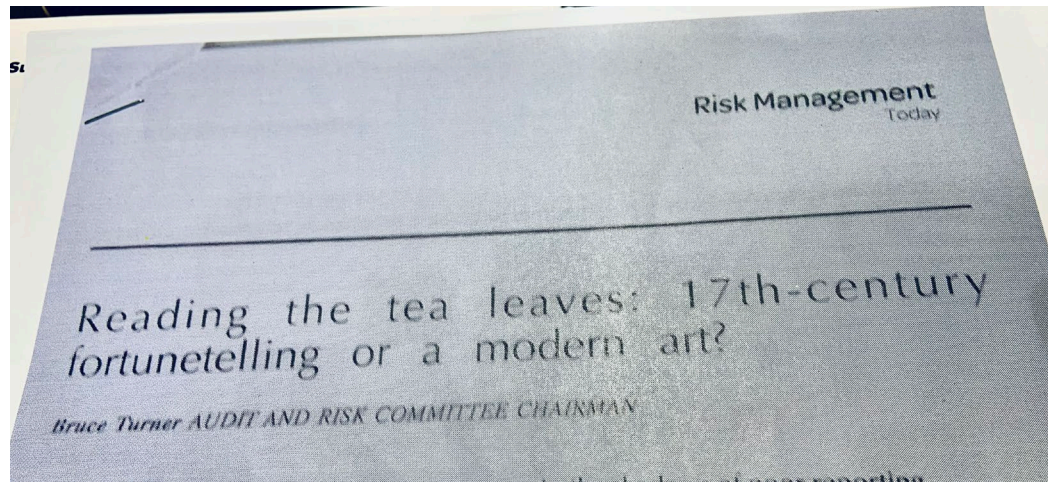
Notwithstanding the various sources of information provided to the audit and risk committee, an overall interpretation of the results of the separate reports enables the committee to determine the effectiveness of the risk and control framework and how well it is operating in practice.

ARC Chair, thought leader and mystic
– Bruce Turner AO

Audit Committee insight



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ARC Chair, thought leader and mystic
– Bruce Turner AO



ARC skillset no. 135a:
tasseography

Complaints analysis



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An independent prudential enquiry into a major bank highlighted the importance of reporting on customer complaints to the board and executive management in line with better practice peer organisations.² The report noted large volumes of information on customer complaints was not fully analysed, with only 3.4% of complaints reviewed to find systemic issues. The report commented that “Internal audit assessed that this may cause (the organisation) to miss significant insights in systemic issue analysis.”³

PRUDENTIAL
INQUIRY INTO THE
COMMONWEALTH
BANK OF AUSTRALIA

APRIL 2018

Misconduct analysis

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White Paper

Audit Committee oversight of the Fraud and Corruption Investigations Activity

UPDATED 2020

The governance landscape continues to evolve, with contemporary practices being embraced by governance, risk and audit specialists. Corporate investigators also play an important role in an organisation's governance and have an opportunity to shape a profile as 'trusted advisors'.

Misconduct Analysis

Open Investigations

Where more than a handful of investigations is completed each year, Audit Committees require consolidated quarterly reporting on open investigations, including:

- Running tally (number of investigations brought forward from last period, new investigations, closed investigations, matters referred elsewhere (eg law enforcement agency), new total carried forward to next quarter).
- Number of investigations (or allegations) currently open per category (eg (i) corruption – conflicts of interest; bribery; illegal gratuities; economic extortion; (ii) asset misappropriation – cash; inventory; other assets; (iii) financial statement fraud – net worth / net income overstatements; net worth / net income understatements)ⁱⁱⁱ.
- Source of investigations (which can be through internal channels including ‘whistleblowers’, or external channels including corruption / law enforcement agencies).
- An ageing of investigations to indicate whether investigations are completed in a timely manner.
- Information on the number of employees who have been stood down (on pay or without pay) or reassigned while investigations are being completed, with assurance that the status of these employees is being actively managed and the Chief Executive (or equivalent) is being kept informed.

Misconduct Analysis

Completed Investigations

Audit Committees require consolidated quarterly reporting on completed investigations, including:

- Number of completed investigations (or allegations) per category and whether they were substantiated, not substantiated, or other result.
- The sanctions applied (where allegations have been substantiated) so the Audit Committee has visibility, to assess consistency of decision-making.
- Root cause/s for each substantiated allegation.
- Themes, systemic issues, or early indicators of emerging risks and how they will be handled, including strategic, leadership, human resource, and damage control considerations.
- Lessons learned that can be incorporated into corruption prevention (or similar), risk management, and compliance activities, including training, ongoing reinforcement / education, and internal communications.

Soft controls



This takes us
into the vortex
of considering
“soft controls”



“While soft controls are intangible controls like morale, integrity, ethical climate, empowerment, competencies, openness and shared values, hard controls include organisational structure, assignment of authority and responsibility and human resources policies. Soft controls lead to efficient hard controls and help in strengthening hard controls.”



Soft controls

“On the one hand, the explicit controls (hard controls) can guide employee behaviour through defined policies and procedures while on the other, soft controls can influence the behaviour of the employees and ensure compliance with procedures.

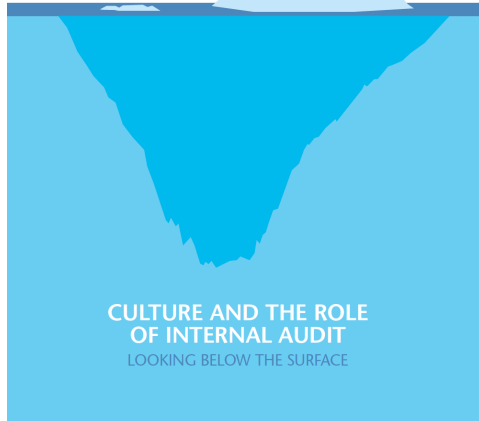
Therefore, soft controls can be viewed as the foundation of efficient hard controls.”



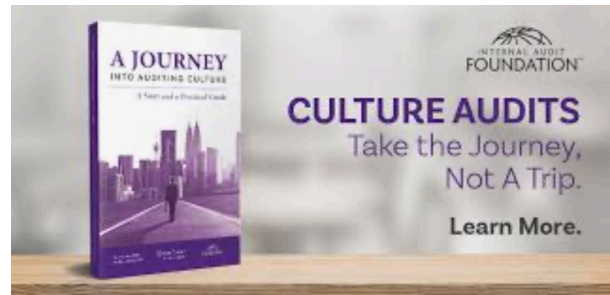
Auditing Culture is now a thing



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But that's another presentation!



Supplemental Guidance
Practice Guide

Auditing Culture

Thank You



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If you have questions, please feel free to contact us.

ICAC

Lewis Rangott, Executive Director Corruption Prevention

T: 02 8281 5822

E: lrangott@icac.nsw.gov.au

The Institute of Internal Auditors - Australia

Level 7, 133 Castlereagh Street

SYDNEY NSW 2576

Tel: +61 2 9267 9155

Toll Free: 1800 236 366

www.iaa.org.au

email: enquiry@iaa.org.au

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