

# The best of both worlds

## Customs partnership approach to internal audit

Customs is pleased with the way its model for internal auditing is working and encouraged by the part it is playing in helping improve management performance. The audit process has two distinct and interrelated components: Control audit, confirming that our processes are working correctly; and performance audit, a way of monitoring performance standards and discovering better ways of working.

During 1997-98, the Australian National Audit Office reviewed the Customs internal audit function and found it to be one of two agencies in the Commonwealth exhibiting better practice. Since taking on its current form in 1995, the function has become recognised throughout Customs as a valuable tool, contributing to the efficiency and effectiveness of management organisation and operations.

Rather than being 100 per cent outsourced, Customs operates internal audit in partnership with PricewaterhouseCoopers. This arrangement began in 1995 when Customs decided that auditing was not its core business. Recruiting and retaining appropriate staff had been difficult and there was a strong need to overcome the traditional but inaccurate image of audit as an internal police force.

The partnership arrangement works more effectively than standard outsourcing because it combines the best of both worlds: that is, Customs knowledge and experience of its

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*For Customs, internal audit is a way to improve management results, not just a way of finding a mistake after it happened, says Lisa Woolmer. She explains how a partnership with major accounting firm PricewaterhouseCoopers is helping improve Customs performance.*

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wide-ranging duties, combined with the skills of professional auditors using the latest techniques.

Under the Customs internal audit model, the Manager, Internal Audit, is a PricewaterhouseCoopers senior manager supported by three Customs staff (two in Canberra and one in Perth). Among university graduates entering Customs through its Graduate Development Program, some will have the opportunity to spend a period in Internal Audit as part of their induction. Other PricewaterhouseCoopers staff are called in to work on specific assignments according to resource requirements and their specific skills and expertise.

PricewaterhouseCoopers contract staff bring professional accreditation and membership of professional bodies such as the Institute of

Chartered Accountants in Australia and the Association of Certified Fraud Examiners, as well as relevant certifications such as Certified Information Systems Auditor. This has enabled internal audit to overcome its previous shortages in audit and information technology skills.

Customs internal audit staff have accounting qualifications or relevant auditing experience. They also get formal and on-the-job training from PricewaterhouseCoopers. The minimum requirement is to have completed an auditing fundamentals course and a course on electronic working papers used to document audit work. Working in Internal Audit provides staff with fast-track exposure to the scope of Customs activities and exposure to the working style of a large private-sector firm.

The Customs internal audit team uses PricewaterhouseCoopers technology such as PwC Teammate electronic working papers, email for communication and distributing reports, and databases to record work status and monitor implementation of audit recommendations. Specialised PricewaterhouseCoopers audit tools have been adapted to suit Customs. Extensive use of technology makes documentation and reporting as efficient and effective as possible while ensuring important quality control mechanisms remain in place.

PricewaterhouseCoopers is certified to the international standard ISO

9001 and is responsible for quality in Customs internal audit work. The Manager, Internal Audit, reviews all reports and working papers before they are published and attends entry and exit meetings for each audit. PricewaterhouseCoopers has its own in-house reviews of working papers for quality accreditation and Customs papers can be the subject of periodic peer reviews by senior staff from other offices.

ANAO has reported that Customs management accepts 96 per cent of internal audit recommendations, a demonstration of the high quality of the work.

This value is clearly demonstrated by ANAO's reliance on our work, particularly in information technology matters. As well, the internal audit program allows time to help with Customs annual financial statements to ensure an unqualified audit opinion. This is usually achieved by a quality assurance review of processes or the financial statements themselves.

Internal audit aims to improve organisational performance by focusing on areas of high-risk or concern. Internal Audit established risk profiles by risk analysis of auditable areas within Customs. The assessment ensures that, over a three-year cycle, higher-risk areas are included in annual audit plans. The process demonstrates a clear link between risk assessment and audit work.

Customs unique experience in development of risk management techniques and standards is very relevant.

Customs Audit and Evaluation Committee approves the overall strategic direction of work and examines responses to audits. The committee meets quarterly and comprises:

- Customs two deputy chief executive officers (one of whom chairs the committee);
- three national directors;
- the National Manager, Planning and International;
- either the New South Wales or Victorian regional director; and
- the National Manager, Budgets.

The Manager, Internal Audit, a PricewaterhouseCoopers partner, and a representative of the ANAO attend all meetings.

In addition to direction from the committee, Internal Audit actively involves all senior Customs executives. Every 12 months, they are approached individually for suggestions for the annual audit plan. Executives are involved in reporting processes on audits in their areas of responsibility.

PricewaterhouseCoopers considers it essential to have senior management involved to maintain relevance and focus, and to ensure effective communication.

Audits are generally conducted nationally, with a single report unless specific regional reports are deemed more appropriate. This helps Customs achieve its aim to operate as a single corporate face to the rest of the community. For the 1997-98 year, 34 audits and evaluations were completed, with a further 16 in draft.

In 1996-97, Customs extended its contract with PricewaterhouseCoopers for a further two years. This biennial contract review is undertaken by the chair of the audit committee and authorised by the Chief Executive Officer. Customs can independently evaluate internal audit resource requirements and the effectiveness and efficiency of audit results.

Many other Commonwealth agencies are considering outsourcing for internal audit services, particularly the partnership approach. For example, this model has been used successfully at the former Department of Primary Industries and Energy and the Department of Immigration and Multicultural Affairs. With the Commonwealth trend to seek efficiencies and economies of scale, many more agencies are likely to follow the Customs model.

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*Lisa Woolmer is a manager for PricewaterhouseCoopers and was appointed Customs Manager, Internal Audit, in January 1999.*