

**Kelly Skuse**

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**From:** Sharon Bailey  
**Sent:** Wednesday, 9 May 2012 10:39 AM  
**To:** Jon Grayson  
**Subject:** Internal Audit in other States

DG

As discussed:

- Victoria's Department of the Premier and Cabinet has contracted PricewaterhouseCoopers to provide internal audit reviews and assurance advice. The Department itself conducts compliance and performance reviews, with results and follow-up action reported to and monitored by its Audit and Risk Management Committee; and
- New South Wales Department of the Premier and Cabinet also has an Audit and Risk Management Committee which oversees internal audit processes conducted by Deloitte Touche Tohmatsu. The committee also reviews DPC's: financial management and reporting practices and activities; accounting practices and policies; and payroll and leave management

Sharon

RTI RELEASE

**Patrick Vidgen**

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**From:** Tracy Laurence-Johnson  
**Sent:** Tuesday, 3 July 2012 4:56 PM  
**To:** Patrick Vidgen  
**Subject:** Service Delivery Options Internal Audit  
**Attachments:** Review Ernst Young Papers Tracy Laurence-Johnson July 2012 3.docx

Pat,

Here is my paper on the service delivery options for Internal Audit – stimulated by the Ernst and Young discussion paper.

I am happy to discuss any aspect of the paper at your convenience.

Regards

Tracy Laurence-Johnson

RTI RELEASE

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Analysis of Service Delivery Models for Internal Audit  
Tracy Laurence-Johnson, A/Director Internal Audit and Risk Services

OVERVIEWDefinition of Internal Audit (Institute of Internal Auditors (IIA))

According to the definition of Internal Auditing in the IIA's International Professional Practices Framework, 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.

Department of Premier and Cabinet (DPC) Internal Audit and Risk Services

The DPC Internal Audit and Risk Services team is responsible for:

- Annual development of Strategic Internal Audit Plans and Annual Internal Audit Plans;
- Management and conduct of Internal Audits by internal staff and external contractors /resources as required – DPC / PSC / OQPC.
- Contract management – over Internal Audit contracts with external providers;
- Supporting QAO in the review of annual financial statements as requested;
- Monitoring and reporting of outstanding Internal Audit and QAO issues;
- Facilitating Risk Management activity and reporting;
- Performing secretariat function for the Audit and Risk Management Committee;
- Annual reviews of Internal Audit, Risk Management and the Audit and Risk Management Committee performance;
- Responding to whole of government matters in relation to internal audit, risk management and governance;
- Responding to relevant correspondence on behalf of the Director-General and Premier as required;
- Audit Committee member – Great Barrier Reef Marine Park Authority and advisor to Director-General on related financial matters.

The team currently includes a Director and two Internal Auditors. The team qualifications and experience include:

- AO6 – 10 yrs internal and external audit experience in Australia, Hong Kong and China / government and private / Masters in Commerce / CIA / CPA Hong Kong.
- AO7 – 10 yrs external audit experience Australia and Singapore / government and private / Chartered Accountant / BBus.
- A/Director Internal Audit and Risk Services - 20 years internal / external / financial / risk management experience government and private sector / CPA / Certified Internal Auditor (CIA) / Certified Information Systems Auditor (CISA) / Certified Government Audit Professional (CGAP) / BBus.

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### The Department of Premier and Cabinet

The Department of Premier and Cabinet (DPC) is a unique entity. Whilst small in size, it is significant in function. As one of Queensland Government's key central agencies, the actions of the Department influence the actions of all other agencies. In establishing new arrangements for Internal Audit, DPC needs to ensure the best outcome for the Department and ultimately for Queensland Government in supporting all Directors-General in meeting their accountability and performance obligations in this time of overwhelming change.

Internal Audit arrangements should support DPC and ultimately, other agencies to:

- Meet Government commitments in this period where loss of control may occur, e.g. during times of critical policy, service delivery, business system and staffing change;
- Ensure continuity of service delivery and avoid service delivery failure due to complexities in cross agency matters (e.g. service agreements; policy responsibility vs delivery responsibility), poor procurement and operations, information communication and technology [ICT] systems changes / consolidations;
- Ensure risks are identified and management (not hidden);
- Ensure the efficient use of existing resources and reduce the potential for maladministration through reduction in staff exercising key controls;
- Ensure that reliable information is available to support decision making (e.g. reduce risk that agencies don't have or can't trust the information available);
- Mitigate the increased opportunities for fraud and corruption (resulting from the anticipated staff reductions, IT changes, machinery of government changes, changes to internal control environments, increases in use of electronic means for facilitating payments).

### Australian National Audit Office: *Public Sector Internal Audit Better Practice Guide* (September 2007)

This Better Practice Guide to Internal Audit observes that, similar to the Queensland Government, within the Australian Government sector, internal audit is performed in a range of entities that vary considerably in purpose, size, structure, and complexity. As a result, there is a range of models used to deliver internal audit services i.e. in-house, co-sourced, out-sourced and variations of each of these models.

The guide states that each model has its benefits and its risks. The most appropriate model will depend on the entity's particular needs that could well change over time as circumstances change. It is important, therefore, to periodically consider which service delivery model will best suit the entity's needs.

To decide on the appropriate service delivery model the guide recommends considering the following:

- Ability to attract and retain suitable staff  
For a variety of reasons it may be difficult to attract and retain suitably skilled in-house audit staff. As a consequence, co-sourcing or outsourcing the internal audit function to an external service provider, who assumes some or all of the responsibility for recruiting and managing the

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required staff, may be an effective means of overcoming staff shortages. Alternatively, the development and implementation of a comprehensive staffing strategy as part of the internal audit strategic business plan may be successful in obtaining sufficient staff with the necessary skills and experience.

- **The skills and experience required**  
Generally, in-house staff could be expected to have a greater knowledge of the entity's business objectives, systems, risks and culture. They can be seen as 'part of the team' and can be more easily approached for informal and ad hoc advice. There are no issues over possible conflicts of interest and there is more direct control over the quality of work undertaken. Corporate knowledge may also be more readily retained by in-house staff and in-house internal audit units are in a position to offer a good training ground for future senior managers. On the other hand, service providers may have access to leading practices and expertise from the public and private sectors in Australia and overseas that may be helpful to the entity.
- **Cost**  
The cost of in-house provision compared with the alternatives is a key consideration. It is important when comparing costs to take into account the full costs of the different options including the salaries of in-house staff plus overheads such as training, leave, superannuation, staff management, accommodation and facilities. In the case of co-sourcing or outsourcing, the costs of contract management as well as of the contract itself should also be taken into account.
- **Flexibility**  
Many internal audits require access to special technical audit skills from that are either not available or not cost-effective to maintain in-house. The ability to respond quickly to new requests for audits without disrupting the planned programme or the need to resource workload peaks can also be important. Co-sourced or outsourced arrangements may be able to provide the required flexibility in such circumstances.
- **Viability**  
For some small entities there may not be the critical mass to make an in-house internal audit function viable and sustainable. Small internal audit units may find it difficult to supply sufficient staff with the full range of skills necessary to undertake a comprehensive internal audit plan. In this situation, there is a risk the audit plan will be determined more by the skills of the staff available rather than the needs of the entity. Limited career progression and development opportunities can also act as a disincentive for the recruitment and retention of staff.

Queensland Audit Office Report: Report No. 5 – 2012 - Results of Audits – Internal Control Systems raises concerns over effectiveness of internal control structures within departments

The report tabled on 28 June 2012 summarised findings in relation to the effectiveness of financial controls, the effectiveness of fraud controls and IT governance. Section 3.1 of the report *Managing fraud risk* explained that an ongoing theme raised in QAO reports Parliament has been the risk of fraud. The report reiterated the importance of an effective system of internal control as both a preventative and detective countermeasure to the incidence of fraud. The report further emphasised that the internal control structures within departments are being increasingly challenged because of:

- regular transfers of functions and staff both within departments, and as part of machinery of government changes—there have been four significant restructures in the past six years increasing the risk that lines of responsibility, authority and accountability become blurred thereby weakening the control environment

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- the loss of experienced and key staff through voluntary separation programs (VSPs)—during the 2012/13 financial year in excess of 4200 non front-line departmental staff have accepted a voluntary separation package leading to a heightened risk of loss of corporate knowledge and experience in the 'back office' where most internal financial control activities operate (NB Four staff from DPC Internal Audit took VSPs).
- the need to do more with less as required by budget savings—increasing the risk that resources will be diverted from necessary internal control monitoring measures, such as Internal Audit (e.g. current DPC budget is insufficient to fund the establishment; the professional development budget per professional internal auditor is \$500 per person – not sufficient to fund a day's training).

The new government should ensure that Internal Audit arrangements are not compromised in this time of transition to greater accountability and efficiency, economy and effectiveness across Government.

Ernst & Young - Driving Value from Internal Audit – Discussion Paper – June 2012

The Ernst and Young discussion paper "Driving Value from Internal Audit" provides a sound overview of alternative models for the delivery of Internal Audit, however is not completely accurate in its diagram (page 6) in relation to the models currently applied across the Queensland Government. Most Government organisations in Queensland already use a combination of internal staff and staff provided by external organisations i.e. co-sourcing. Agencies use a combination of in-house resources (or a designated Head of Internal Audit (HIA)) plus resources from chartered accounting firms, specialist firms in IT and risk management and specialist contractors, among others.

Most organisations have determined the best fit of resources based on the maturity, size, risk profile and nature of the organisation. The Ernst and Young model does not provide a revolutionary new approach. As mentioned above, the Department of Premier and Cabinet makes use of internal staff and contract resources as required.

Advantages and Disadvantages of alternative service delivery models for Internal Audit

The following five options for the delivery of Internal Audit have been analysed for application to the Department of Premier and Cabinet (and ultimately, other agencies).

1. Full in-sourced model – no external resources – this model would be moving backwards from the current arrangements in place within the Department and is not recommended;
2. Co-sourced model with in-house Internal Audit resources and external provider resources;
3. Co-sourced model with in-house HIA only and external provider resources;
4. Out-sourced model with no internal audit resources internally – CFO to operate as designated HIA with external provider resources;

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5. Out-sourced model with no internal audit resources internally – Another agency HIA to operate as designated HIA.

Table One below outlines the advantages and disadvantages of the alternative models 2 – 5.

#### Risk Management

The risk management function also sits with the DPC Internal Audit and Risk Services team. Prevailing best practice is to maintain an in-house risk management function supplemented by technical advice and education from external specialists if required.

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Table One: Advantages and Disadvantages of Service Delivery Models for Internal Audit

| Alternative Internal Audit Service Delivery Models   | ADVANTAGES  | DISADVANTAGES / RISKS   |
|--|---|---|
| <p><b>2.Co-sourced model - Internal Resources</b></p> <ul style="list-style-type: none"> <li>• In-house HIA plus in-house Internal Auditors plus use of specialist external resources as required</li> <li>• CURRENT DPC MODEL</li> <li>• PREFERRED MODEL FOR QLD GOVERNMENT AGENCIES GENERALLY</li> </ul> | <ul style="list-style-type: none"> <li>• Low cost – DPC Internal Audit has reduced in size and budget significantly over last 10 years despite increasing cost of the public sector in Queensland.</li> <li>• Internal DPC staff commitment to supporting Department and Director-General achieve the stated objectives / performance.</li> <li>• Internal HIA with qualifications and experience per financial legislation.</li> <li>• HIA performs contract management role over external resources to ensure value for money provision of internal audit.</li> <li>• HIA reviews reports from internal and external resources prior to issue to senior management to ensure quality control and appropriateness of recommendations in DPC context.</li> <li>• Flexible blend of in-house and external resources as required to suit the changing role and risk profile of the department.</li> <li>• Supplement skill and knowledge gaps with external resources.</li> <li>• Audit documentation maintained on-site.</li> <li>• In-house function remains independent and objective – ‘no fear or favour’.</li> <li>• Current function, infrastructure in place e.g. audit software in place. No cost to change.</li> <li>• The in-house Internal Audit function is a key part of the corporate culture and corporate governance of DPC. Internal Audit is also responsible for the department’s risk management framework.</li> <li>• A strong internal audit presence (a seat at every table) acts as</li> </ul> | <ul style="list-style-type: none"> <li>• Maintain full cost of internal resources and infrastructure.</li> <li>• Internal resources - retaining appropriate skill sets / experience / qualifications as current staff move on.</li> </ul> |

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## Analysis of Service Delivery Models for Internal Audit

Tracy Laurence-Johnson, A/Director Internal Audit and Risk Services

| Alternative Internal Audit Service Delivery Models | ADVANTAGES   | DISADVANTAGES / RISKS |
|--|--|-----------------------|
|  | <p>a catalyst for a strong risk and compliance culture within the agency. Internal Audit visibility is a control in itself.</p> <ul style="list-style-type: none"> <li>• Internal relationships built and maintained between internal auditors and management and staff.</li> <li>• External relationships built and maintained between internal auditors and other auditors across the sector and wider community and with the QAO.</li> <li>• Greater continuity of Internal Audit staff (not new auditors every year) and those staff get to know the organisation and can better add value to achieving priorities.</li> <li>• Internal Auditors maintain corporate knowledge and a current awareness of changing government policies (the 'hot spots').</li> <li>• Immediate notification of management if/when serious findings are made. Does not have to go through managers and partners in external provider first.</li> <li>• In-house resources have the capacity to operate on 'a short fuse' and divert audit resources when necessary, react to emergent issues or suspected frauds as they arise. Internal Audit is a responsive internal mechanism to support agencies performing in accordance with new government directions – can respond immediately to new priorities, unplanned audits, investigate suspected fraud, provide advice on new policy / system without waiting for an external provider to respond, then quote and then schedule the work</li> <li>• DPC Internal Audit does not just raise audit issues. It works with the agency to resolve the problems and reduce the likelihood of adverse audit issues being raised by the QAO.</li> <li>• Higher level of confidentiality over audit issues. Not disclosed to non-essential external parties.</li> </ul> |                       |

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|  | <ul style="list-style-type: none"> <li>• An internal function can operate as a training ground for staff – in many agencies former audit staff are operating in senior roles in Finance, Governance and other areas. Staff and management from other areas can work on audit projects to up skill and cross skill others. Capacity to swap and share resources.</li> <li>• Contracts with external providers can include training and skills transfer of internal staff under agreed arrangements.</li> <li>• Less risk of cross-selling in audit reports by external providers.</li> <li>• No risk of conflict of interest in the work being undertaken by an in-house Internal Audit function. External firms may be undertaking work for other organisations which pose a conflict of interest.</li> <li>• Can shop around for the best resources for the particular audit required.</li> <li>• Capacity to allocate work internally or externally based on risk and nature of the work i.e. do not pay high hourly rates for 'tick and flick audits'.</li> <li>• Access to external providers - access to contemporary knowledge and skills - required skills can be accessed when needed under competitive tendering arrangements.</li> </ul> |                       |

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|---|--|--|
| <p><b>3.Co-sourced model - In-house HIA</b></p> <ul style="list-style-type: none"> <li>• Internal HIA plus external resources</li> <li>• No in-house staff</li> <li>• <b>DPC PREFERRED MODEL</b></li> </ul> | <ul style="list-style-type: none"> <li>• Advantages stated above PLUS</li> <li>• Save on cost of in-house Internal Auditors.</li> <li>• Save on audit infrastructure costs e.g. audit software (\$3000 p.a.), accommodation, rent etc. Outsourced auditors will still need office space and access to network.</li> <li>• Internal HIA with qualifications and experience per financial legislation (full-time or part-time as required).</li> <li>• HIA performs contract management role over external resources to ensure value for money provision of internal audit.</li> <li>• HIA continues to perform all other responsibilities of Internal Audit and Risk Services i.e. risk management.</li> <li>• HIA reviews all reports prior to issue to senior management to ensure quality control and appropriateness of recommendations in DPC context.</li> <li>• Flexible blend of in-house and external resources as required to suit the changing role and risk profile of the department.</li> <li>• The right skills and resources can be sourced at the right time in accordance with objectives and risks.</li> </ul> | <ul style="list-style-type: none"> <li>• Maintain cost of in-house HIA.</li> <li>• Acquiring appropriate skill sets / experience / qualifications for HIA role now and in future.</li> </ul> |

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| Alternative Internal Audit Service Delivery Models   | ADVANTAGES   | DISADVANTAGES / RISKS   |
|--|--|---|
| <p><b>4.Out-sourced model - CFO to operate as HIA</b></p> <ul style="list-style-type: none"> <li>• CFO takes on role of HIA</li> <li>• This is essentially a full outsourced model given no Internal Audit expertise or capability internally</li> </ul> | <ul style="list-style-type: none"> <li>• The advantages of co-sourcing outlined IN 2 AND 3 above PLUS</li> <li>• Save on cost of HIA and in-house Internal Auditors (Other resources may need to be brought in to support CFO in performing all of the activities related to the role).</li> <li>• Save on audit infrastructure costs e.g. software (\$3000 p.a.), accommodation, rent etc. Outsourced auditors will still need office space and access to network.</li> </ul> <p>*Additional advantage of outsourcing over co-sourced models above:</p> <ul style="list-style-type: none"> <li>• Avoids independence and familiarity threats of in-house function.</li> </ul> | <ul style="list-style-type: none"> <li>• All of the potential disadvantages of outsourcing described below PLUS:</li> <li>• CFO may not have the required qualifications to operate as the HIA (CPA, CIA etc) under Queensland Financial Legislation, nor the knowledge and focus on strong internal controls / risk management.</li> <li>• Loss of all internal audit expertise in DPC - No strong internal audit presence (a seat at every table) – there is no longer a catalyst for a strong risk and compliance culture within the agency.</li> <li>• Compromises independence and objectivity of internal audit activity - CFO across those functions where fraud most likely – potential for conflict of interest or resources to be diverted to areas where the CFO is short of resources instead of where risks are – audit resources may be diverted to operational tasks.</li> <li>• Potential for stronger focus on financial matters and less focus on achievement of objectives; compliance; information technology risks, efficiency and effectiveness.</li> <li>• An officer in DPC will need to manage the contract with the outsourced provider. Additional resource will be required to support the CFO in this work – this may erode desired savings.</li> <li>• Other work of Internal Audit and Risk Services still needs to be undertaken. Again, resources required.</li> </ul> <p>Risks of outsourcing generally:</p> <ul style="list-style-type: none"> <li>• The department loses control of internal audit and loses</li> </ul> |

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| Alternative Internal Audit Service Delivery Models | ADVANTAGES | DISADVANTAGES / RISKS  |
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|  |            | <p>internal focus on business and risk of the agency.</p> <ul style="list-style-type: none"> <li>• The organisation has to pay extra for anything that is above the agreed scope of services and the external provider may not have capacity to provide it.</li> <li>• Lose responsiveness of internal capacity. Cannot jump to address a fraud without resources or provide advice when required urgently.</li> <li>• Potential for outsourced provider to focus on revenue element of service level agreement (finishing jobs quickly and within budget) and lose focus on adding value and improving governance.</li> <li>• Outsourced provider may cross-sell other services through internal audit reports which starts to compromise independence.</li> <li>• Over time, outsourcing providers will command an ever greater premium for their services, since many outsourcing firms buy market share and then increase prices as competition decreases.</li> <li>• Outsourcing does not enable learning and skills development within the agency.</li> <li>• The potential exists for mixed allegiance, in that internal employees have allegiance to the organisation, while the outsourcer's employees are loyal to the outsourcing firm. In other words, the outsourcer does not have to live with the results – DPC does.</li> <li>• Outsourcing providers may utilise inexperienced personnel to perform audits e.g. graduates inexperienced in internal audit and in the agency's business.</li> <li>• Potential for provider to be less than honest – protecting source of income</li> </ul> |

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## Analysis of Service Delivery Models for Internal Audit

Tracy Laurence-Johnson, A/Director Internal Audit and Risk Services

| Alternative Internal Audit Service Delivery Models   | ADVANTAGES   | DISADVANTAGES / RISKS   |
|--|--|---|
|  |  | <ul style="list-style-type: none"> <li>• If a contract in place less pressure to perform and respond in timely manner e.g. currently, there are chartered accounting firms with too much work who cannot deliver to existing clients (source: HIAs - Qld Govt Departments)</li> <li>• Less hours on the ground compared to in-house.</li> <li>• Critical matters are not identified and addressed e.g. Qld Health fraud – a chartered accounting firm did work in Qld Health to examine related concerns prior to the significant incident– this did not result in preventing the extreme fraud from occurring.</li> </ul>  |
| <p><b>5 Out-sourced model - Another Qld Government Agency</b></p> <ul style="list-style-type: none"> <li>• <b>Outsource full IA function to another Qld Government agency</b></li> </ul> | <ul style="list-style-type: none"> <li>• The benefit is the financial saving of half of the cost of DPC HIA.</li> <li>• All other costs will be replicated to some degree in host agency and be on-charged to DPC e.g. if there are two person years of work in DPC – two staff will need to be paid for. IT systems will need to be funded etc. There are also a number of activities that will still need to be undertaken in DPC and which will require resources and dollars.</li> </ul> | <ul style="list-style-type: none"> <li>• Similar disadvantages to outsourced model, but potentially without the access to leading edge external resources.</li> <li>• Host agency Internal Audit Unit may not have required resources, skill sets, qualifications to undertake the DPC Internal Audit coverage.</li> <li>• New Agency Internal Audit Unit has no corporate knowledge or relationships within DPC – learning curve.</li> <li>• DPC will need to arrange a service level agreement between DPC and the provider and manage the contract on an ongoing basis. This will pose an additional cost to DPC.</li> <li>• DPC will still need an independent ARMC and will still require resources to support this committee.</li> <li>• DPC will still need to perform risk management, ARMC secretariat and other related tasks.</li> <li>• DPC priorities compete with priorities of the host agency of the new IA team.</li> <li>• DPC may cross-subsidise higher risk activity in the other</li> </ul> |

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| Alternative Internal Audit Service Delivery Models | ADVANTAGES | DISADVANTAGES / RISKS  |
|--|------------|--|
|  |            | <p>agency.</p> <ul style="list-style-type: none"> <li>• Historically government agencies fail to adequately manage service level agreements with other government agencies e.g. Shared Services (source QAO Reports over last 3 financial years).</li> <li>• DPC loses control of internal audit and loses internal focus on the business and risk profile of the agency.</li> <li>• Quality of audits are subject to internal management decisions within the new IA host agency regarding allocation and timing of resources. DPC may get junior, inexperienced staff but still pay for senior, experienced staff under the SLA.</li> <li>• Resources focused on work of DPC may be compromised in an effort to meet the needs of the host agency Director-General.</li> <li>• Potential for host to focus on revenue element of service level agreement (finishing jobs quickly and within budget) and lose focus on adding value and improving governance in DPC.</li> </ul> |

Preferred Model for DPC

The advantages and disadvantages above have been analysed to determine the preferred approach for the provision of an efficient, effective and economical Internal Audit function for DPC, and ultimately, for other Queensland Government departments. The view has also been informed by current public research and reports published by the Queensland Audit Office and the Australian National Audit Office.

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The preferred model for Queensland Government agencies generally is Option 2 - A flexible co-sourced model - In-house Head of Internal Audit, in-house internal Auditors plus external provider resources.

The key advantages of this model is that it provides the 'best of both worlds' or the 'best of breed' – a stable internal function within the agency supporting a culture of strong governance, risk management and internal control, supplemented, as required by access to leading edge skills from a range of external providers. It is also a lower cost option overall, there is more continuity in the internal resources relative to the revolving door of external provider staff and less risk that urgent work cannot be undertaken because the external providers are busy elsewhere servicing other clients.

**For DPC, the preferred model is Option 3 – Co-sourced model with in-house Head of Internal Audit. DPC is a key central agency providing critical services and influencing all agencies, however, it is not large in terms of staff numbers and operating budget.**

**Patrick Vidgen**

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**From:** [CTPI]  
**Sent:** Thursday, 5 July 2012 11:46 AM  
**To:** Patrick Vidgen  
**Subject:** RE: DPC Internal Audit Group

Hi Pat – thanks for your prompt response.

Look forward to hearing from you once decisions have been made.

CTPI  
[Redacted]

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**From:** Patrick Vidgen [mailto:Patrick.Vidgen@premiers.qld.gov.au]  
**Sent:** Thursday, 5 July 2012 11:42 AM  
**To:** [CTPI] Tracy Laurence-Johnson  
**Subject:** RE: DPC Internal Audit Group

Thanks for the email [CTPI] Hectic indeed – mostly budget related as you can imagine.

There are a range of ideas floating about at the moment across nearly all parts of the business, internal audit included. One of the ideas is to investigate service delivery models for internal audit. I am currently gathering information on this. I have openly discussed this with Tracy and Tracy has provided me with a background paper. I am yet to consider and brief the DG and no decisions have been made. Once the DG has considered the models and made a decision (particularly if there is to be a change), I will certainly let you and all the staff know and any implications.

Pat

Pat Vidgen  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: [CTPI]

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**From:** [CTPI]  
**Sent:** Thursday, 5 July 2012 11:07 AM  
**To:** Patrick Vidgen  
**Subject:** DPC Internal Audit Group

Hi Pat,

Hope it is not too hectic for you at the moment!!

Yesterday I received a call from [CTPI] stating that the DPC Internal Audit Group is potentially going to be outsourced. Can you please keep me updated on what is going on as this will impact upon my returning to the DPC position at the end of October 2012.

There is also the issue that the position at DPC was a “temporary appointment” with an end date of 31 Dec 2012. It would be greatly appreciated if you could keep me in the loop as to what the intention of the position is in the long term.

Kind regards,  
[CTPI]  
[Redacted]

CTPI

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**Patrick Vidgen**

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**From:** CTPI  
**Sent:** Thursday, 5 July 2012 12:34 PM  
**To:** Patrick Vidgen  
**Subject:** RE: DPC Internal Audit Group

Thanks for the update Pat.

Regards

CTPI

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**From:** Patrick Vidgen [mailto:Patrick.Vidgen@premiers.qld.gov.au]  
**Sent:** Thursday, 5 July 2012 11:42 AM  
**To:** CTPI Tracy Laurence-Johnson  
**Subject:** RE: DPC Internal Audit Group

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Pat

Pat Vidgen  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: CTPI

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**From:** CTPI  
**Sent:** Thursday, 5 July 2012 11:07 AM  
**To:** Patrick Vidgen  
**Subject:** DPC Internal Audit Group

Hi Pat,

Hope it is not too hectic for you at the moment!!

Yesterday I received a call from CTPI stating that the DPC Internal Audit Group is potentially going to be outsourced. Can you please keep me updated on what is going on as this will impact upon my returning to the DPC position at the end of October 2012.

There is also the issue that the position at DPC was a "temporary appointment" with an end date of 31 Dec 2012. It would be greatly appreciated if you could keep me in the loop as to what the intention of the position is in the long term.

Kind regards,

CTPI

---

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DEPTSTAMP1!

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---

## Patrick Vidgen

---

**From:** Tracy Laurence-Johnson  
**Sent:** Tuesday, 10 July 2012 10:26 AM  
**To:** Patrick Vidgen  
**Subject:** Revised Internal Audit Paper Option 3  
**Attachments:** DPC Internal Audit and Risk Services - Option 3.docx

Pat,

Here is my revised version of the paper.

I added two sections:

- Model for provision of DPC Risk Management
- Impact on permanent staff within Internal Audit and Risk Services

Warm Regards,

### Tracy Laurence-Johnson

A/Director

Internal Audit & Risk Services

Department of the Premier and Cabinet

 (07) 322 44794

 CTPI

 [tracy.laurence-johnson@premiers.qld.gov.au](mailto:tracy.laurence-johnson@premiers.qld.gov.au)

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July 3, 2012

**Department of Premier and Cabinet  
 Provision of Internal Audit and Risk Services  
 Option 3 - Co-sourced model - In-house Head of Internal Audit (HIA)  
 and Risk Services plus external provider resources**

**Preferred Model for DPC – Internal Audit and Risk Services – In-house HIA plus external provider resources**

The advantages and disadvantages of five alternative models for the provision of Internal Audit has been analysed in the paper titled “Analysis of Service Delivery Models for Internal Audit” to determine the preferred approach for the provision of an efficient, effective and economical Internal Audit function for DPC.

The paper stated that the preferred model for DPC is a flexible, co-sourced model with an in-house Head of Internal Audit and access to external provider resources. The key advantage of this model is that it provides the ‘best of both worlds’ or the ‘best of breed’ – a stable internal audit role within the agency supporting a culture of strong governance, risk management and internal control, supplemented by access to leading edge skills from the external provider/s.

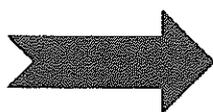
In relation to risk management, the paper advised that the DPC risk management function also sits with the DPC Internal Audit and Risk Services team and that the prevailing best practice is to maintain an in-house risk management function supplemented by technical advice and education from external specialists as required.

It is not considered to be effective and efficient to separate risk management out from Internal Audit at this time. They are compatible functions and the external service providers generally have strong risk management capabilities which could be taken advantage of under the co-sourced model selected.

This paper further articulates how the preferred model would be implemented within the Department. The following diagram provides a high level view of the change to the current arrangements:

**CURRENT MODEL**

- Head of Internal Audit and Risk Services (S03)
- Audit Manager (A08)
- Principal Project Officer (Risk) (A07)
- Auditor (A06)
- 0.6 X Administrative Support Officer (A03)



**PREFERRED MODEL**

- Head of Internal Audit and Risk Services
- Administrative Support
- External Provider of Internal Audit services plus advice and ad hoc services in relation to risk management

The impact on current Internal Audit resources is outlined later in the document.

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Provision of Internal Audit and Risk Services  
Option 3 - Co-sourced model - In-house Head of Internal Audit (HIA)  
and Risk Services plus external provider resources**

The preferred model could be implemented in a number of ways. The following models are considered to be the most appropriate:

1. Independent, standalone HIA team reporting directly to the Director-General on audit and risk matters with administrative reporting line to Deputy Director-General, Governance;
2. Independent, standalone HIA in "Office" of Deputy Director-General – Governance reporting directly to the Director-General on audit and risk matters with direct administrative reporting line to Deputy Director-General, Governance;
3. Independent, standalone HIA reporting directly to the Director-General (part of the Office of the Director-General) on audit and risk matters;
4. HIA is Director, Internal Audit, Risk Management, Planning and Reporting. Direct reporting line to the Director-General on Internal Audit and Risk matters. Direct reporting line to Deputy Director-General Governance on all other matters.

It is anticipated that the in-house Internal Audit and Risk function would be responsible for:

- Arranging, managing and reviewing Internal Audit contract/s with external service provider/s (3 yr contracts);
- Review and approval of Strategic Internal Audit Plans and Annual Internal Audit Plans provided by external service provider;
- Review and approval of Internal Audit 'Engagement Memorandums' and 'Reports' provided by external service provider;
- Provision of ad hoc advice and audit assistance where outside of contract with external provider or required urgently;
- Secretariat for the DPC Audit and Risk Management Committee;
- Risk Management - methodology, facilitation and reporting (informed by regular reviews undertaken by external service provider over contemporary approach to risk management);
- Provide DPC response to whole of government matters in relation to internal audit, risk management and governance;
- Provide response to relevant correspondence on behalf of the Director-General and Premier as required;
- Audit Committee member – Great Barrier Reef Marine Park Authority and advisor to Director-General on related financial matters.

It is assumed that:

- The Head of Internal Audit and Risk Services will be sufficiently senior to negotiate and manage contracts with Partners of external audit service providers and liaise with Executive Directors and Directors/Managers across DPC;
- The Head of Internal Audit is appropriately qualified and experienced;

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Provision of Internal Audit and Risk Services  
Option 3 - Co-sourced model - In-house Head of Internal Audit (HIA)  
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- The Head of Internal Audit and Risk Services will have appropriate administrative support (required to support risk management function, secretariat function, financial control, diary management);
- Accommodation will need to be provided for external service provider staff throughout the year. There may not be significant savings in accommodation costs.

Common advantages of retaining the HIA function plus use of external service provider under all of the models include:

- HIA continues to provide cost-effective approach to Risk Management informed by leading edge thinking provided by external service provider;
- A strong HIA presence (a seat at the table) acts as a catalyst for a strong risk and compliance culture within the agency. Internal Audit visibility is a control in itself;
- HIA continues to perform all other responsibilities of Internal Audit and Risk Services.
- HIA in place to perform contract management role over external resources;
- HIA in place to review strategic and annual plans, engagement memorandums and reports provided by external provider to ensure value for money, contextually relevant and quality provision of Internal Audit;
- HIA role in place internally means less risk of cross-selling of other products / services in audit reports by external providers;
- Audit documentation maintained on-site;
- Internal relationships built and maintained between HIA and management and staff;
- External relationships built and maintained between HIA and other auditors across the sector and wider community and with the QAO;
- HIA works with DPC management and staff to resolve issues raised and reduce the likelihood of adverse audit issues being raised by the QAO;
- Internal HIA function can operate as a training ground for future, senior staff – in many agencies former audit staff are operating in senior roles in Finance, Governance and other areas.

An analysis of the distinct advantages and disadvantages of each model is provided below:

**1. Independent, standalone HIA team reporting directly to the Director-General on audit and risk matters with administrative reporting line to Deputy Director-General, Governance:**

*Advantages*

- Retain full independence, objectivity in function;
- Very similar to current approach. Cost to implement is minor;
- Deputy Director-General Governance has been administrative report for Internal Audit for some time and knows the function. HIA has support of the Governance Division and Deputy Director-General - Governance.

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Option 3 - Co-sourced model - In-house Head of Internal Audit (HIA)  
and Risk Services plus external provider resources**

*Disadvantages*

- There may be additional administrative costs for the separate team e.g. accommodation, elements of administration (which may or may not be cheaper if co-located with another areas e.g. Office of Deputy Director-General);
- Organisational isolation – a small team of two people;

**2. Independent, standalone HIA in Office of Deputy Director-General – Governance reporting directly to the Director-General on audit and risk matters with direct administrative reporting line to Deputy Director-General, Governance:**

*The Model*

- HIA role is part of Office of Deputy Director-General – Governance. HIA reports administratively to the Deputy Director-General – Governance. HIA reports to Director-General directly on audit and risk matters.

*Advantages*

- Save cost of totally separate Internal Audit function / cost centre e.g. accommodation, administration costs e.g. separate corporate card. May save costs of purely administrative tasks e.g. purchasing, reporting, etc to allow greater focus on the business on Internal Audit and Risk e.g. secretariat function, risk management process and reporting etc;
- Similarities to current approach. Fairly quick and efficient to implement;
- Potential to share administrative resources within Office of Deputy Director-General Governance and save money;
- Deputy Director-General Governance has been administrative report for Internal Audit for some time and knows the function. HIA has support of the Governance Division and Deputy Director-General - Governance;
- Whilst reporting directly to the Director-General, this model has the advantage that the HIA is part of the Governance Division 'team'. A significant portion of the audit coverage occurs within this Division – HIA is seen as a part of it – not a separate, distinct entity;
- Less likelihood of organisational isolation for HIA and administrative support.

*Disadvantages*

- Perception of reduced independence, objectivity (NB there is an administrative reporting line to Deputy Director-General only and it is the current model);
- Increases direct size/budget of Office of the Deputy Director-General which may be unpalatable;
- Accommodation may be a challenge if there is a requirement for HIA to be co-located within the Office of the Deputy Director-General. This should not be necessary if it costs a significant amount to make this happen.

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Provision of Internal Audit and Risk Services  
Option 3 - Co-sourced model - In-house Head of Internal Audit (HIA)  
and Risk Services plus external provider resources

**3. Independent, standalone HIA reporting directly to the Director-General (part of the Office of the Director-General) on audit and risk matters:**

*The Model*

- Head of Internal Audit and Risk Services reports directly to Director-General and is a part of the Office of the Director-General.

*Advantages*

- HIA role is part of Office of Director-General – clearly reinforces independence and objectivity of role;
- Reduces reliance / overhead on Deputy Director-General Governance / Governance Division;
- Stronger relationship between Director-General and HIA – better ability for HIA to support objectives and performance of DPC on behalf of Director-General;
- Potential to share administrative resources within Office of Director-General;
- May save costs of purely administrative tasks e.g. purchasing, reporting, etc to allow greater focus on the business on Internal Audit and Risk e.g. secretariat function, risk management process and reporting etc;
- Less isolated organisationally.

*Disadvantages*

- Administratively, this may take some time to implement e.g. accommodation, reporting lines etc;
- Accommodation would be required for external provider staff – this may not be appropriate on Level 15;
- Increases direct size/budget of Office of the Director-General which may be unpalatable;
- Director-General has another direct report – this may not be desired;
- Question of whether HIA is a direct report to Director-General on all matters including administrative matters e.g. leave applications, expenditure etc;
- Accommodation may be a challenge if there is a requirement for HIA to be co-located within the Office of the Director-General. This should not be necessary if it costs a significant amount to make this happen.

**4. The HIA is the Director, Internal Audit, Risk Management, Planning and Reporting:**

*The Model*

- HIA is Director, Internal Audit, Risk Management, Planning and Reporting;
- Direct reporting line to the Director-General on Internal Audit and Risk matters;
- Direct reporting line to Deputy Director-General Governance on all other matters;
- Administrative reporting line to Deputy Director-General Governance;
- Head of Internal Audit and Risk Services is now also responsible for:
  - Corporate Planning;

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Provision of Internal Audit and Risk Services  
Option 3 - Co-sourced model - In-house Head of Internal Audit (HIA)  
and Risk Services plus external provider resources

- Corporate Reporting;
- All other required functions of Corporate Planning and Reporting team.

*Advantages*

- The size and scope of this team may be more appropriate organisationally to be led by a Director over the smaller 2 person team;
- There may be scope to save or combine some resources in the new Corporate Planning and Reporting team (unsure at 9 July 2012);
- Save cost of totally separate Internal Audit function / cost centre e.g. accommodation, administration costs e.g. separate corporate card;
- Potential to share administrative resources across the whole team;
- May save costs of purely administrative tasks e.g. purchasing, reporting, etc to allow greater focus on the business on Internal Audit and Risk e.g. secretariat function, risk management process and reporting etc;
- Whilst reporting directly to the Director-General on audit and risk matters, this model has the advantage that the HIA remains a part of the Governance Division 'team'. A significant portion of the audit coverage occurs within this Division – HIA is seen as a part of it – not a separate, distinct entity.

*Disadvantages*

- A greater level of complexity in reporting arrangements (it can be done);
- Perception of reduced independence, objectivity of Internal Audit role;
- May dilute the focus on Internal Audit to other matters e.g. planning and reporting;
- Director of unit will need to be appropriately qualified and experienced in Internal Audit, Risk Management (as well as have capability in relation to planning and reporting);
- Any audits or planning or reporting will need to be carefully managed to ensure independence and objectivity;
- Accommodation may be a challenge re co-location of staff.

**Preferred Model**

- There are advantages and disadvantages of all the above models and many of the advantages and disadvantages are common to many or all models;
- If the overriding goal is to reduce cost, further detailed analysis will be required to compare the costs of each model;
- If the desired outcome is an efficient and effective model for delivery of Internal Audit and Risk Services it is considered that models 2 and 3 are reasonable options. Model 1 provides no great advantages over the other models and increases the risk of organisational isolation for the HIA and support staff. Models 2, 3 and 4 have similarities in that the HIA is part of a larger group with the potential to access shared resources and reduce costs. The best model will need to be decided by the Director-General and Deputy Director-General. Model 4 has the potential to compromise the

July 3, 2012

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Provision of Internal Audit and Risk Services  
Option 3 - Co-sourced model - In-house Head of Internal Audit (HIA)  
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focus on internal audit matters, however, may enable some savings, and may be preferred organisationally in terms of the size of the team to be led by a Director level role.

**Model for provision of DPC Risk Management**

- It was stated above that the HIA would continue to have responsibility for risk management – methodology, facilitation and reporting.
- In the immediate period, under the existing model for Internal Audit and Risk Services, the HIA will continue to support the current risk management approach without any risk management resources (current resource is on long term leave).
- With the approval for an outsourcing arrangement it is proposed that the first review to be conducted by the outsourced provider is a review of DPC Risk Management approach with recommendations for improvement to the process. This may identify alternative (more efficient, effective) ways of managing risk and may involve the periodic use of external provider resources.

**Impact on permanent staff within Internal Audit and Risk Services**

- There are currently 2.6 permanent staff within Internal Audit:
  - [redacted] – Principal Project Officer (Risk) – A07; [redacted]
  - [redacted] Audit Manager (A08) – [redacted]
  - [redacted] – Administration Officer (A03) – part-time.
- All other staff in the unit are temporary staff with contracts ending at 26 October 2012 (2 staff) and 28 September 2012 (1 staff).
- Once a firm decision is made regarding the model going forward, action will need to be taken to understand the impact on the positions of these staff, the staff members' preferences for their careers and the impact on the budget position of Internal Audit.

**Options for securing a Head of Internal Audit:**

- The role is currently being filled by a secondee from the Department of Science, Information Technology, innovation and the Arts.
- There is an option to maintain this staff member in role for a period of time to enable stabilisation of selected model;
- The position could be declared vacant to the PSC and a suitable employee requiring placement (ERP) could be sought/ If no suitable ERP – advertise publicly;
- Fill position through other allowable recruitment mechanisms e.g. transfer at level of staff from another agency OR by direct appointment - on 11 April 2013, current staff member will have been in the role for one year and has been through a merit based recruitment exercise – there may be scope for direct appointment.

## Patrick Vidgen

---

**From:** Patrick Vidgen  
**Sent:** Tuesday, 10 July 2012 10:47 AM  
**To:** Tracy Laurence-Johnson  
**Subject:** RE: Revised Internal Audit Paper Option 3

**Tracking:**                      **Recipient**    **Read**  
   Tracy Laurence-Johnson    Read: 10/07/2012 11:40 AM

Ok - thanks

Pat Vidgen  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: CTPI

---

**From:** Tracy Laurence-Johnson  
**Sent:** Tuesday, 10 July 2012 10:26 AM  
**To:** Patrick Vidgen  
**Subject:** Revised Internal Audit Paper Option 3

Pat,

Here is my revised version of the paper.

I added two sections:

- Model for provision of DPC Risk Management
- Impact on permanent staff within Internal Audit and Risk Services

Warm Regards,

### Tracy Laurence-Johnson

A/Director  
Internal Audit & Risk Services  
Department of the Premier and Cabinet

 (07) 322 44794  
 CTPI  
 [tracy.laurence-johnson@premiers.qld.gov.au](mailto:tracy.laurence-johnson@premiers.qld.gov.au)

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PO Box 15185 | City East | QLD 4002

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**Patrick Vidgen**

---

**From:** Patrick Vidgen  
**Sent:** Tuesday, 10 July 2012 10:47 AM  
**To:** Tracy Laurence-Johnson  
**Subject:** RE: Paper - Option 3 - Internal Audit and Risk Services

**Tracking:**                      **Recipient**    **Read**  
   Tracy Laurence-Johnson    Read: 10/07/2012 11:40 AM

Ok - ta

Pat Vidgen  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: CTPI

---

**From:** Tracy Laurence-Johnson  
**Sent:** Tuesday, 10 July 2012 10:02 AM  
**To:** Patrick Vidgen  
**Subject:** Paper - Option 3 - Internal Audit and Risk Services

Pat

I believe I need to provide some more clarity around risk management in this paper.

I will update the paper and have it back to you today.

Warm Regards,

**Tracy Laurence-Johnson**  
A/Director  
Internal Audit & Risk Services  
Department of the Premier and Cabinet

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 CTPI  
 [tracy.laurence-johnson@premiers.qld.gov.au](mailto:tracy.laurence-johnson@premiers.qld.gov.au)

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---

**From:** Tracy Laurence-Johnson  
**Sent:** Monday, 9 July 2012 6:13 PM  
**To:** Patrick Vidgen  
**Subject:** Paper - Option 3 - Internal Audit and Risk Services

Hello Pat,

As promised here is further analysis of Option 3.

Please call me if you have any questions/comments.

Warm Regards,

**Tracy Laurence-Johnson**

A/Director

Internal Audit & Risk Services

Department of the Premier and Cabinet

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 CTPI

 [tracy.laurence-johnson@premiers.qld.gov.au](mailto:tracy.laurence-johnson@premiers.qld.gov.au)

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RTI RELEASE

**Patrick Vidgen**

---

**From:** Patrick Vidgen  
**Sent:** Friday, 13 July 2012 3:51 PM  
**To:** Karen Spillane  
**Subject:** DGM- Internal Audit function.docx  
**Attachments:** DGM- Internal Audit function.docx

RTI RELEASE

**DIRECTOR-GENERAL'S BRIEFING NOTE**

Governance

Tracking Folder No.

Document No.

**To: Director-General**  
**Date: 13 July 2012**  
**Subject: Internal Audit Function**

Approved / Not Approved / Noted

Addressee .....

Date ...../...../.....

**• RECOMMENDATION**

It is recommended that you:

- CTPI
- **Note** the options papers prepared by the Acting Director, Internal Audit and Risk Services, DPC in relation to the service delivery models (Attachment 2);
- **Endorse** the preferred option of a co-sourced model maintaining a DPC employee as the Head of Internal Audit with that person conducting functions and liaison relating to ethics, risk and audit (with services provided by an outsourced provider following an appropriate tender process); and
- **Note** the preferred model should be cost neutral (or better) but will have initial staffing implications which will be managed through the current EMP process.

**• KEY ISSUES**

- DPC has traditionally been serviced by a small in-house audit team. This model of service delivery however, gives rise to limitations on the effectiveness of the service. Critically, it is difficult for a small team to have sufficient expertise across all areas of an agency which in itself, encourages audit work targeted to the teams' capabilities and not necessarily organisational weak spots.
- An outsourced or co-sourced model allows for the flexible use of resources to strategically target the areas of most significance in an organisation, whether that be financial controls or broader process, system and performance audits. Using external providers allows access to a broader, more contemporary and specialist skills set resulting in greater strategic benefit to an organisation.
- Section 78 of the *Financial Accountability Act 2009* requires the "accountable officer" to appoint an appropriately qualified Head of Internal Audit (HIA). The minimum qualification of the HIA is a standard accounting or Institute of Internal Auditors designation.
- Whilst an agency needs to nominate a HIA who requires a professional qualification and is either an employee of the department or of the State (with the Treasurer's approval), the internal audit function can be fulfilled internally, co-resourced or outsourced.
- Whilst the Treasurer can approve that the HIA function also be performed by the Chief Financial Officer, this is not recommended by the Queensland Auditor-General. The Treasurer can also appoint a HIA who is shared across multiple departments. Currently DPC uses an "in-house" internal audit function with a budget of around \$0.45M (being \$0.376M state revenue and \$0.075M from the Public Service Commission). There is planned additional revenue from Ministerial Offices for undertaking their internal audit work. This allocation funds 4 staff (SO1, AO8, AO7 and AO3), with the remaining \$0.006 for other costs. There is also an

Action Officer: Robynne Macgroarty  
 Area: ODDGG  
 Telephone: 3405 3757

Approvals by Director / ED /DDG  
 documented in *notes* in TRIM

**DIRECTOR-GENERAL'S BRIEFING NOTE**

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Document No.

unfunded role in the area.

- Ernst & Young has prepared a discussion paper for DPC and advise that outside of Queensland, the majority of other States have outsourced or co-sourced internal audit functions (see page 6 of *Attachment 1*). The co-sourced model would retain a DPC HIA officer. The outsourced model (which involves higher internal budget savings) would merge the HIA function with the CFO function or assign the HIA function to another agency employee (e.g. using the HIA within Treasury or similar agency).
- The Acting Director, Internal Audit and Risk Services has also prepared options papers on the matter (*Attachment 2*).

CTPI

- I have discussed the three options (status quo in-house, co-sourced or outsourced) with the Acting Director, Internal Audit and Risk Services, and we agree that the preferred model is a co-sourced model which would retain a Head, Internal Audit and Risk Services (and possibly modest administrative support).
- Retaining a sole in-house model can no longer be considered as providing the requisite benchmark service. A full outsourced model eliminates direct internal costs but may bring contract management challenges (and ultimately service delivery concerns) without a dedicated overseeing internal resource. The main benefit of the co-sourced model is the anticipated standard in the audit product and the potential for efficiencies compared with a full in-house model.
- If is further recommended <sup>CTPI</sup>  <sup>CTPI</sup>  that the department move directly to a tender process for a co-sourced model. It would be expected that the winning tender, would as its first job, conduct an organisational scoping exercise.

#### • CONSULTATION

- Queensland Auditor-General; Acting Director, Internal Audit and Risk Services; Acting Executive Director, Business Services, Queensland Treasury; and the Chair of the DPC Audit and Risk Committee, Mr Graham Carpenter. There is no opposition to the proposal.
- DPC provides internal audit services for the Public Service Commission and the Office of the Governor but there has been no consultation with either.

#### • BACKGROUND

- For independence, Internal Audit and Risk Services (IARS) reports directly to the Director-General with the Deputy Director-General, Governance having administrative responsibility for the area. The Director, IARS is also the secretary of the Audit and Risk Committee (ARC).

Comments

Action Officer: Robynne Macgroarty  
Area: ODDGG  
Telephone: 3405 3757

Approvals by Director / ED /DDG  
documented in *notes* in TRIM

**DIRECTOR-GENERAL'S BRIEFING NOTE**

*Governance*

Tracking Folder No.

Document No.

Pat Vidgen  
Deputy Director-General  
Governance



RTI RELEASE

Action Officer: Robynne Macgroarty  
Area: ODDGG  
Telephone: 3405 3757

Approvals by Director / ED / DDG  
documented in *notes* in TRIM

**Karen Kay**

---

**From:** Tracy Laurence-Johnson  
**Sent:** Thursday, 19 July 2012 12:37 PM  
**To:** Karen Kay  
**Subject:** FW: Internal audit function

**Sensitivity:** Confidential

Karen

Do you have any idea of timing for this meeting?

Warm Regards,

**Tracy Laurence-Johnson**

A/Director  
Internal Audit & Risk Services  
Department of the Premier and Cabinet

 (07) 322 44794  
 CTPI  
 [tracy.laurence-johnson@premiers.qld.gov.au](mailto:tracy.laurence-johnson@premiers.qld.gov.au)

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**From:** Patrick Vidgen  
**Sent:** Thursday, 19 July 2012 9:16 AM  
**To:** Tracy Laurence-Johnson; Annette Sargent; Debbie Paterson  
**Cc:** Robynne Macgroarty; Karen Kay  
**Subject:** Internal audit function  
**Importance:** High  
**Sensitivity:** Confidential

Dear all

Last night the DG approved that DPC move towards a co-sourced model for the internal audit function. Implementing this decision will have implications. Primarily they are –

1. Staff management – both permanent and temporary staff in the unit
2. Tender process – drafting the requisite specification documents and going to market ASAP

I would like the three of us to meet in the next day or so (Karen will arrange 30 minutes) to discuss. Annette, Kath may also be handy at this meeting? I would very much appreciate this information remaining confidential until we have discussed how this will all roll out.

Thanks

Pat

**Pat Vidgen**  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: CTPI

**Patrick Vidgen**

---

**From:** Patrick Vidgen  
**Sent:** Thursday, 19 July 2012 9:16 AM  
**To:** Tracy Laurence-Johnson; Annette Sargent; Debbie Paterson  
**Cc:** Robynne Macgroarty; Karen Kay  
**Subject:** Internal audit function

**Importance:** High  
**Sensitivity:** Confidential

| Tracking: | Recipient              | Read                      |
|-----------|------------------------|---------------------------|
|           | Tracy Laurence-Johnson | Read: 19/07/2012 9:34 AM  |
|           | Annette Sargent        |                           |
|           | Debbie Paterson        | Read: 19/07/2012 9:18 AM  |
|           | Robynne Macgroarty     |                           |
|           | Karen Kay              | Read: 19/07/2012 10:08 AM |

Dear all

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I would like the three of us to meet in the next day or so (Karen will arrange 30 minutes) to discuss. Annette, Kath may also be handy at this meeting? I would very much appreciate this information remaining confidential until we have discussed how this will all roll out.

Thanks

Pat

**Pat Vidgen**  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: CTPI

**Patrick Vidgen**

---

**From:** Patrick Vidgen  
**Sent:** Tuesday, 24 July 2012 2:04 PM  
**To:** Tim Herbert  
**Cc:** Debbie Paterson  
**Subject:** FW: Notice of Industrial Dispute - DPV

|                  |                  |                          |
|------------------|------------------|--------------------------|
| <b>Tracking:</b> | <b>Recipient</b> | <b>Read</b>              |
|                  | Tim Herbert      | Read: 24/07/2012 2:04 PM |
|                  | Debbie Paterson  |                          |

fyi

Pat Vidgen  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: CTPI

---

**From:** Jon Grayson  
**Sent:** Tuesday, 24 July 2012 2:00 PM  
**To:** Patrick Vidgen  
**Cc:** Debbie Paterson  
**Subject:** Re: Notice of Industrial Dispute - DPV

Thanks Pat. I agree

Sent from my iPhone

On 24/07/2012, at 1:02 PM, "Patrick Vidgen" <[Patrick.Vidgen@premiers.qld.gov.au](mailto:Patrick.Vidgen@premiers.qld.gov.au)> wrote:

Jon

The QIRC has just notified DPC that at 2.30pm today, DPC must attend the QIRC in relation to two notices of dispute that have been lodged.

They relate to DPC decisions to abolish MSB and Internal Audit. It would appear that DPC staff members have approached the Union and that the Union has then lodged these matters.

Deb Paterson will attend at 2.30pm with support from PIESR (PSC). I have just met with Deb and advised the following –

MSB – there is no decision to abolish MSB. There is a decision to examine service delivery options across a range of functions, this would also include status quo. I am meeting with MSB senior managers at 2pm to begin this examination.

Internal Audit – there is a decision to co-source. I agreed on Friday with Deb and the Head of Internal Audit (Tracy) that Deb and Tracy would meet staff this week to explain the decision. Consultation with the Union would follow. Tracy had some initial discussions on Friday from which the current QIRC matter may have arisen.

More broadly, Deb advises that the Union is lodging many notices with the QIRC at the moment, this is part of that suite. However, following the outcome today, with your agreement, I propose to formally communicate with the Division exactly what is happening with MSB and Internal Audit. One the key messages will be that both exercises are not about budget savings but about determining optimum service delivery options.

Will keep you posted.

Pat

Pat Vidgen  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile:  CTPI

RTI RELEASE

## Kelly Skuse

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**From:** Debbie Paterson  
**Sent:** Tuesday, 24 July 2012 5:10 PM  
**To:** Jon Grayson  
**Cc:** Patrick Vidgen; Sharon Bailey; Annette Sargent  
**Subject:** FW: Notice of Industrial Dispute - DPV

**Importance:** High  
**Sensitivity:** Confidential

Hi DG,

Just wanted to brief you on the outcome of the conciliation conference I attended at the QIRC this afternoon. The matter was heard by Deputy President Swan. As Pat outlined below the matters related to 'plans of the Department to abolish the Ministerial Services Branch and Internal Audit and Risk Services and our failure to consult with Together Queensland in accordance with Part 7 of the State Government Departments Certified Agreement 2009 (the Agreement) in relation to this restructure'.

I am pleased to report that no significant issues were identified during this conference. A brief summary of the discussions and agreed actions is as follows:

MSB - it was clearly outlined to Deputy Commissioner Swan and also Together that no decision has been made to abolish MSB and that the department is currently in the early stages of reviewing service delivery options. It was reinforced that should a decision be made in the future to implement organisational change that may affect the employment security of MSB employees that **the Department would continue to honour all consultative arrangements as required in the Agreement.**

IARS – it was conveyed to Deputy Commissioner Swan and Together that the decision to co-source the Internal Audit function was only approved last Friday 20 July 2012 and that consultation with affected employees and Together is planned to occur this week. Deputy Commissioner Swan expressed no concern with the process to date and recommended consultation proceed as planned. As a result **Together are going to advise me of their availability to meet with me later this week to commence this consultation.**

During this conciliation meeting Together acknowledged the large amount of organisation change that is occurring across the Public Sector and expressed concern about the processes of consultation. Together's view in terms of consultation is that for genuine consultation to occur there must be an opportunity to influence the outcome (i.e. both the union and affected staff should be given an opportunity to consider and respond to organisational change proposals and any responses should be considered by management before any change is implemented). DP Swan was clear that this matter was a point for debate/determination of law at some other point in time.

So all in all a good result for us.

Regards  
Deb

.....  
Debbie Paterson

Director, Human Resource Services | Department of the Premier and Cabinet  
Level 1, 100 George Street, BRISBANE Q 4002  
Ph: 3224 4652 | Fax: 3210 2848 | Email: [Debbie.Paterson@premiers.qld.gov.au](mailto:Debbie.Paterson@premiers.qld.gov.au)

 Please consider the environment before printing this email

---

**From:** Patrick Vidgen  
**Sent:** Tuesday, 24 July 2012 1:03 PM

**To:** Jon Grayson  
**Cc:** Debbie Paterson  
**Subject:** Notice of Industrial Dispute - DPV  
**Importance:** High  
**Sensitivity:** Confidential

Jon

The QIRC has just notified DPC that at 2.30pm today, DPC must attend the QIRC in relation to two notices of dispute that have been lodged.

They relate to DPC decisions to abolish MSB and Internal Audit. It would appear that DPC staff members have approached the Union and that the Union has then lodged these matters.

Deb Paterson will attend at 2.30pm with support from PIESR (PSC). I have just met with Deb and advised the following –

MSB – there is no decision to abolish MSB. There is a decision to examine service delivery options across a range of functions, this would also include status quo. I am meeting with MSB senior managers at 2pm to begin this examination.

Internal Audit – there is a decision to co-source. I agreed on Friday with Deb and the Head of Internal Audit (Tracy) that Deb and Tracy would meet staff this week to explain the decision. Consultation with the Union would follow. Tracy had some initial discussions on Friday from which the current QIRC matter may have arisen.

More broadly, Deb advises that the Union is lodging many notices with the QIRC at the moment, this is part of that suite. However, following the outcome today, with your agreement, I propose to formally communicate with the Division exactly what is happening with MSB and Internal Audit. One of the key messages will be that both exercises are not about budget savings but about determining optimum service delivery options.

Will keep you posted.

Pat

Pat Vidgen  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: CTPI

**Patrick Vidgen**

---

**From:** Patrick Vidgen  
**Sent:** Tuesday, 24 July 2012 3:03 PM  
**To:** Sharon Bailey  
**Cc:** Jon Grayson  
**Subject:** Internal audit

| Tracking: | Recipient     | Read                     |
|-----------|---------------|--------------------------|
|           | Sharon Bailey | Read: 24/07/2012 3:03 PM |
|           | Jon Grayson   | Read: 24/07/2012 3:14 PM |

Sharon

By text, Jon asked me how many people in IA affected. My text reply to Jon is below. FYI.

Pat

Pat Vidgen  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: CTPI

-----Original Message-----

**From:** Patrick Vidgen  
**Sent:** Tuesday, 24 July 2012 3:01 PM  
**To:** Patrick Vidgen  
**Subject:**

Jon, the area usually has 5 staff. Currently only 3 people have permanent appointments in the area. The proposed change would impact 2 of the 3 people. The 2 people are not presently in the area. 1 is on a years leave and 1 seconded elsewhere. At the moment in the area there are 4 people. 3 are acting on secondments and their secondments would end at the changeover to co source arrangements. Pat Sent from my iPhone

## Patrick Vidgen

---

**From:** Patrick Vidgen  
**Sent:** Tuesday, 24 July 2012 5:37 PM  
**To:** Jon Grayson; Sharon Bailey  
**Subject:** Draft email re MSB and audit

**Importance:** High  
**Sensitivity:** Confidential

**Tracking:** Recipient  
Jon Grayson  
Sharon Bailey

Read

Read: 24/07/2012 5:37 PM

Jon

Please see draft below. I can either send this from me to governance division (cc Craig) or it can be reshaped from you to all DPC.

Please let me know your preference (and any changes).

Pat

**Pat Vidgen**  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: CTPI

-----  
Dear Colleagues

On 2 July 2012, the Director-General, through his regular communiqué, discussed the implications of the Commission of Audit's Interim Report. He also reminded DPC of the Premier's repeated message - the only way to protect our future is by finding savings and new, cost-effective ways of delivering services to Queenslanders. We were further reminded that it is a case of all agencies on deck to rectify the situation.

I can confirm that the 2012/13 DPC budget remains under consideration. Additionally, once a final position has been reached, the budget outcome, like for all agencies, is only likely to become public at the time of the State Budget on 11 September 2012. Any impacts on DPC and its staff will be communicated at that time.

However, this does not prevent DPC from exploring alternate service delivery options in some areas now. I can confirm that Ministerial Services has been requested to develop an options paper on the services it provides, namely human resource, finance, information technology and facilities. The options will canvass interjurisdictional models and analyse centralised and decentralised service delivery. The main focus of the exercise is to confirm whether the current model remains the best approach.

Similarly, late last week a decision was reached to change the delivery model for internal audit and risk services. DPC will follow the trend in other jurisdictions and move from a completely in-house internal audit function to one which retains some internal capacity but also utilises the expertise of external providers. This decision is not based on cost cutting but rather adopting an accepted industry model which will provide better audit outcomes for DPC.

Over time, I anticipate that other areas of DPC will also be examining their service delivery model. Self review is important to ensure that best practice approaches are always front of mind, especially with the client in focus. If you have any concerns in relation to current arrangements I encourage you to talk with your managers.

Pat Vidgen

RTI RELEASE

**Kelly Skuse**

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**From:** Sharon Bailey  
**Sent:** Tuesday, 24 July 2012 6:19 PM  
**To:** Patrick Vidgen; Jon Grayson  
**Subject:** RE: Draft email re MSB and audit

**Sensitivity:** Confidential

DG – we can also develop something similar to put in the JDG news that is focussed at a whole of Department level. If you are in agreement, we can work with Pat and Craig to come up with some wording – I'm just mindful of your time restrictions this week

---

**From:** Patrick Vidgen  
**Sent:** Tuesday, 24 July 2012 5:37 PM  
**To:** Jon Grayson; Sharon Bailey  
**Subject:** Draft email re MSB and audit  
**Importance:** High  
**Sensitivity:** Confidential

Jon

Please see draft below. I can either send this from me to governance division (cc Craig) or it can be reshaped from you to all DPC.

Please let me know your preference (and any changes).

Pat

Pat Vidgen  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: CTPI

---

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On 2 July 2012, the Director-General, through his regular communiqué, discussed the implications of the Commission of Audit's Interim Report. He also reminded DPC of the Premier's repeated message - the only way to protect our future is by finding savings and new, cost-effective ways of delivering services to Queenslanders. We were further reminded that it is a case of all agencies on deck to rectify the situation.

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Over time, I anticipate that other areas of DPC will also be examining their service delivery model. Self review is important to ensure that best practice approaches are always front of mind, especially with the client in focus. If you have any concerns in relation to current arrangements I encourage you to talk with your managers.

Pat Vidgen

RTI RELEASE

## Kelly Skuse

---

**From:** Patrick Vidgen  
**Sent:** Wednesday, 25 July 2012 8:36 AM  
**To:** @Governance Division (DPC)  
**Cc:** Jon Grayson; Craig Evans; Sharon Bailey  
**Subject:** Governance update

Dear Colleagues

On 2 July 2012, the Director-General, through his regular communiqué, discussed the implications of the Commission of Audit's Interim Report. He reminded DPC of the Premier's repeated message - the only way to protect our future is by finding savings and new, cost-effective ways of delivering services to Queenslanders. We were further reminded that it is a case of all agencies on deck to rectify the situation.

I can confirm that the 2012/13 DPC budget remains under consideration. Additionally, once a final position has been reached, the budget outcome, similar for all agencies, is only likely to become public at the time of the State Budget on 11 September 2012. Any impacts on DPC and its staff will be communicated at that time.

However, this does not prevent DPC from exploring alternate service delivery options in some areas now. I can confirm that Ministerial Services has been requested to develop an options paper on the services it provides, namely human resource, finance, information technology and facilities. The options will canvass interjurisdictional models and analyse centralised and decentralised service delivery. The main focus of the exercise is to confirm whether the current model remains the best approach.

Similarly, late last week a decision was reached to change the delivery model for internal audit and risk services. DPC will follow the trend in other jurisdictions and move from a completely in-house internal audit function to one which retains some internal capacity but also utilises the expertise of external providers. This decision is not based on cost cutting but rather adopting an accepted industry model which will provide better audit outcomes for DPC.

Over time, I anticipate that other areas of DPC will also be examining their service delivery model. Self review is important to ensure that best practice approaches are always front of mind, especially with the client in focus. If you have any concerns in relation to current arrangements I encourage you to talk with your director.

Regards

Pat

Pat Vidgen  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: CTPI

**Patrick Vidgen**

---

**From:** Craig Evans  
**Sent:** Wednesday, 25 July 2012 9:58 AM  
**To:** Patrick Vidgen  
**Cc:** Jon Grayson  
**Subject:** FW: Meeting with BDOs

Hi Pat  
Might be of use as we work through audit and risk. C

Craig Evans AM  
Deputy Director-General  
Department of the Premier and Cabinet

+61 7 34062140

[www.premiers.qld.gov.au](http://www.premiers.qld.gov.au)

---

**From:** Brett Heyward (PSC)  
**Sent:** Wednesday, 25 July 2012 9:57 AM  
**To:** Craig Evans  
**Subject:** Meeting with [CTPI]

Craig,

Just thought I would pass this comment on to you as well. Ross and I met up with [CTPI] the other day, just to talk to them about their capability and background. One of the [CTPI] consultants at the meeting, [CTPI] sent through a follow up note this more. The section on internal audit might be of interest to you. Here it is:

1. Internal Audit

I have noticed some consolidation of Internal Audit services across Government and wanted to provide you with the best possible advice, which doesn't seem to have been considered so far. I am an international member of the Institute of Internal Auditor's Professional Issues Committee <https://global.theiia.org/about/about-the-iiia/Pages/Professional-Guidance-Committees.aspx> and develop global guidance for the internal audit profession worldwide, over 170,000 members. I have just returned from our most recent Committee meeting in Boston. As a professional Internal Auditor with over 25 year experience I have significant national and international exposure on the operation and governance of internal audit and am a solid resource to provide detailed advice on the most appropriate model. Our most recent supplementary guidance has just been issued this month specifically titled "Optimizing Public Sector Audit Activities". <https://global.theiia.org/standards-guidance/supplemental-guidance/Pages/Optimizing-Public-Sector-Audit-Activities.aspx> I am well placed to drive this change across government in line with the *International Professional Practices Framework* of the IIA. <https://global.theiia.org/standards-guidance/pages/standards-and-guidance-ippf.aspx>. If you need any advice on this please don't hesitate to call.

See you soon.

Brett

Dr Brett Heyward  
Commission Chief Executive | Public Service Commission  
p. 07 3406 7914 | f. 07 3224 6635  
e. [brett.heyward@psc.qld.gov.au](mailto:brett.heyward@psc.qld.gov.au) | w. [www.psc.qld.gov.au](http://www.psc.qld.gov.au)

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RTI RELEASE

July 26, 2012

**INTERNAL AUDIT AND RISK SERVICES MONTHLY REPORT TO THE DIRECTOR-GENERAL JULY 2012**

**1. Agenda Items for consideration by Director-General**

[Redacted]

s73

- c. For noting: The 2012/13 Strategic Internal Audit Plan to be developed by co-sourced provider (due to limited resources and delay in developing DPC Strategic Plan 2012/15).

[Redacted]

s73

**2. Internal Audit and Risk Services – Key Activities in Progress at July 2012**

- a. Co-sourced Internal Audit and Risk Services arrangement to commence 1 November 2012.
  - i. Preparation of Request for Offer – Co-sourcing of Internal Audit (in progress)
  - ii. Revision of position description – Director Internal Audit and Risk Services to include management of co-sourcing arrangement and additional risk management responsibilities (in progress).
  - iii. Management of employees requiring placement – two permanent and two temporary staff displaced by the co-sourcing model (in progress).

[Redacted]

s73

Pages 51 through 65 redacted for the following reasons:

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s73 - irrelevant information

## Kelly Skuse

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**From:** Patrick Vidgen  
**Sent:** Friday, 27 July 2012 1:20 PM  
**To:** Jon Grayson  
**Cc:** Sharon Bailey; Sue Orreal; Annette Sargent; Debbie Paterson  
**Subject:** \*PFI\*Fwd: Internal Audit and Risk Services - partial contracting out of services  
**Attachments:** Contracting out internal audit DPC letter to Mr Alex Scott 12-07-27.docx; ATT00001.htm

Jon

Attached letter needs to go today. It had been drafted with PSC. If you are agreeable, can Sharon or Sue finalize for your signature and email a copy to Shannon from the union by cob?

Thanks

Pat

Sent from my iPhone

Begin forwarded message:

**From:** Debbie Paterson <[Debbie.Paterson@premiers.qld.gov.au](mailto:Debbie.Paterson@premiers.qld.gov.au)>  
**Date:** 27 July 2012 12:55:42 PM AEST  
**To:** Patrick Vidgen <[Patrick.Vidgen@premiers.qld.gov.au](mailto:Patrick.Vidgen@premiers.qld.gov.au)>  
**Cc:** Annette Sargent <[Annette.Sargent@premiers.qld.gov.au](mailto:Annette.Sargent@premiers.qld.gov.au)>  
**Subject:** FW: Internal Audit and Risk Services - partial contracting out of services

Hi Pat,

Here is proposed response for DG's consideration and signature.

Regards  
Deb

Debbie Paterson  
Director, Human Resource Services | Department of the Premier and Cabinet  
Level 1, 100 George Street, BRISBANE Q 4002  
Ph: 3224 4652 | Fax: 3210 2848 | Email: [Debbie.Paterson@premiers.qld.gov.au](mailto:Debbie.Paterson@premiers.qld.gov.au)

 Please consider the environment before printing this email

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**From:** Katrina McGill  
**Sent:** Friday, 27 July 2012 12:52 PM  
**To:** Debbie Paterson  
**Subject:** RE: Internal Audit and Risk Services - partial contracting out of services

Hi Deb,

As discussed here is the draft letter for your dg signature. It is a draft only so feel free to change it if you think it needs changing.

Give me a call if you have any questions and we'll no doubt be talking next week.

I hope you get some rest and are feeling better soon.

Kind regards  
kmc

---

**From:** Debbie Paterson  
**Sent:** Friday, 27 July 2012 10:29 AM  
**To:** Katrina McGill  
**Subject:** FW: Internal Audit and Risk Services - partial contracting out of services

Hi Katrina,

Just confirming that I have just spoken to Shannon and advised her that we have every intention of responding to her request however it may not be before 2pm, but certainly before COB today. Shannon was grateful for this advice.

Regards  
Deb

.....  
**Debbie Paterson**  
Director, Human Resource Services | Department of the Premier and Cabinet  
Level 1, 100 George Street, BRISBANE Q 4002  
Ph: 3224 4652 | Fax: 3210 2848 | Email: [Debbie.Paterson@premiers.qld.gov.au](mailto:Debbie.Paterson@premiers.qld.gov.au)

 Please consider the environment before printing this email

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**From:** Shannon Ellis [<mailto:Shannon.Ellis@together.org.au>]  
**Sent:** Thursday, 26 July 2012 1:51 PM  
**To:** Debbie Paterson  
**Cc:** Dan Goldman  
**Subject:** Internal Audit and Risk Services - partial contracting out of services

Hi Debbie,

As I committed to undertaking during yesterday's meeting I have confirmed that Appendix 22 of the *State Government Departments Certified Agreement 2009* outlines the Government Policy on the 'Contracting-out of Services'. Contained within this Appendix are clear guidelines as to when a Department can contract out a service that is currently provided in house. It states:

'It is the policy of the Government that in order to maintain existing public service jobs, there will be no contracting-out of services currently provided in-house other than in circumstances where:

- actual shortages exist in appropriately skilled in-house staff;
- there is a lack of available infrastructure capital or funds to meet the cost of providing new technology; or
- it can clearly be demonstrated that it is in the public interest that services should be contracted-out.'

It is the view of the Union that the Department of Premier and Cabinet cannot partially contract out any of the services currently found within its Department, specifically those within Internal Audit and Risk Services, as the contracting out of such service does not meet the above circumstances. As such, any action that is currently occurring in relation to the contract out of services in Internal Audit and Risk Services must cease immediately.

Please advise that this process will be ceased immediately and confirm this by 2pm tomorrow.

Kind Regards,

Shannon Ellis  
Advocate  
Phone: 1800 177 244  
Email: [shannon.ellis@together.org.au](mailto:shannon.ellis@together.org.au)



*Together Queensland, Industrial Union of Employees is an amalgamation of the Queensland Public Sector Union, and the Australian Services Union (Clerical and Administrative) Central and Southern Queensland Branch. Together represents over 38 000 members working across Queensland. For more information about Together call 1800 177 244.*

RTI RELEASED

Mr Alex Scott  
Secretary  
Together Queensland Union of Employees  
PO Box 3272  
South Brisbane BC QLD 4101  
Email: [shannon.ellis@together.org.au](mailto:shannon.ellis@together.org.au)

Dear Mr Scott,

Attention: Shannon Ellis

Thank you for your email dated 26 July 2012 regarding your perspective of the partial contracting out of the Internal Audit and Risk Services in the Department of Premier and Cabinet.

I have received advice from the Public Service Commission that the partial contracting out of the Internal Audit and Risk Service is permitted under the current *Contracting Out of Services* policy found at Appendix 22 of the *State Government Departments Certified Agreement 2009*.

The Policy states that "...there will be no contracting out of services currently provided in-house other than in circumstances where:" .... "it can clearly be demonstrated that it is in the public interest that services should be contracted-out".

Given the dire circumstances of the state's finances there can be no other conclusion than that the public is best served by those services being provided by external specialists.

As discussed in the conference in the Queensland Industrial Relations Commission on Wednesday 25 July 2012 we intend to meet our legal obligations to consult about this and other matters.

If you have any further questions please do not hesitate to contact Ms Debbie Paterson, Director, Human Resources Services, on 3224 4652.

Kind regards

**Patrick Vidgen**

---

**From:** Sharon Bailey  
**Sent:** Friday, 27 July 2012 5:20 PM  
**To:** Bradley Wise; Patrick Vidgen; Debbie Paterson  
**Subject:** FW: Internal Audit and Risk Services - Partial Contracting out of Services  
**Attachments:** 20120727164834403.pdf

---

**From:** Jon Grayson  
**Sent:** Friday, 27 July 2012 4:58 PM  
**To:** 'shannon.ellis@together.org.au'  
**Subject:** Internal Audit and Risk Services - Partial Contracting out of Services

Please find correspondence attached.

Regards

**Jon Grayson**  
Director-General  
Department of the Premier and Cabinet

☎ (07) 322 44728  
✉ [jon.grayson@premiers.qld.gov.au](mailto:jon.grayson@premiers.qld.gov.au)  
Executive Building | Level 15 | 100 George Street | Brisbane  
PO Box 15185 | City East | Queensland 4002

RTI RELEASE



Queensland  
Government

For reply please quote: *Governance/PVIDP – doc/12/146418*

Department of the  
Premier and Cabinet

27 July 2012

Mr Alex Scott  
Secretary  
Together Queensland Union of Employees  
PO Box 3272  
South Brisbane BC QLD 4101

Attention: Shannon Ellis - email: [shannon.ellis@together.org.au](mailto:shannon.ellis@together.org.au)

Dear Mr Scott

Thank you for your email dated 26 July 2012 regarding your perspective of the partial contracting out of the Internal Audit and Risk Services in the Department of Premier and Cabinet.

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The Policy states that "...there will be no contracting out of services currently provided in-house other than in circumstances where:" .... "it can clearly be demonstrated that it is in the public interest that services should be contracted-out".

Given the dire circumstances of the State's finances there can be no other conclusion than that the public is best served by those services being provided by external specialists.

The co-sourcing arrangement, employed in most other Australian jurisdictions, will undoubtedly lead to a more efficient and effective use of tax payers money by attaining a better standard of audit and risk management outcomes.

As discussed in the conference in the Queensland Industrial Relations Commission on Wednesday 25 July 2012 we intend to meet our legal obligations to consult about this and other matters.

If you have any further questions please do not hesitate to contact Ms Debbie Paterson, Director, Human Resources Services, on 3224 4652.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jon Grayson'.

Jon Grayson  
Director-General

Executive Building  
100 George Street Brisbane  
PO Box 15185 City East  
Queensland 4002 Australia  
Telephone +61 7 3224 2111  
Facsimile +61 7 3229 2990  
Website [www.premiers.qld.gov.au](http://www.premiers.qld.gov.au)  
ABN 65 959 415 158

## Patrick Vidgen

---

**From:** Patrick Vidgen  
**Sent:** Friday, 27 July 2012 5:01 PM  
**To:** Annette Sargent; Debbie Paterson  
**Subject:** FW: Internal Audit and Risk Services - Partial Contracting out of Services  
**Attachments:** 20120727164834403.pdf

| Tracking: | Recipient       | Read                     |
|-----------|-----------------|--------------------------|
|           | Annette Sargent | Read: 27/07/2012 5:05 PM |
|           | Debbie Paterson | Read: 27/07/2012 5:02 PM |

fyi

Pat Vidgen  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: CTPI

---

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Regards

**Jon Grayson**  
Director-General  
Department of the Premier and Cabinet

☎ (07) 322 44728  
✉ [jon.grayson@premiers.qld.gov.au](mailto:jon.grayson@premiers.qld.gov.au)  
Executive Building | Level 15 | 100 George Street | Brisbane  
PO Box 15185 | City East | Queensland 4002



For reply please quote: *Governance/PV/DP – doc/12/146418*

Department of the  
Premier and Cabinet

27 July 2012

Mr Alex Scott  
Secretary  
Together Queensland Union of Employees  
PO Box 3272  
South Brisbane BC QLD 4101

Attention: Shannon Ellis - email: [shannon.ellis@together.org.au](mailto:shannon.ellis@together.org.au)

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Thank you for your email dated 26 July 2012 regarding your perspective of the partial contracting out of the Internal Audit and Risk Services in the Department of Premier and Cabinet.

I have received advice from the Public Service Commission that the partial contracting out of the Internal Audit and Risk Service is permitted under the current *Contracting Out of Services* policy found at Appendix 22 of the *State Government Departments Certified Agreement 2009*.

The Policy states that "...there will be no contracting out of services currently provided in-house other than in circumstances where:" .... "it can clearly be demonstrated that it is in the public interest that services should be contracted-out".

Given the dire circumstances of the State's finances there can be no other conclusion than that the public is best served by those services being provided by external specialists.

The co-sourcing arrangement, employed in most other Australian jurisdictions, will undoubtedly lead to a more efficient and effective use of tax payers money by attaining a better standard of audit and risk management outcomes.

As discussed in the conference in the Queensland Industrial Relations Commission on Wednesday 25 July 2012 we intend to meet our legal obligations to consult about this and other matters.

If you have any further questions please do not hesitate to contact Ms Debbie Paterson, Director, Human Resources Services, on 3224 4652.

Yours sincerely

A handwritten signature in black ink, appearing to read "Jon Grayson".

Jon Grayson  
Director-General

Executive Building  
100 George Street Brisbane  
PO Box 15185 City East  
Queensland 4002 Australia  
Telephone +61 7 3224 2111  
Facsimile +61 7 3229 2990  
Website [www.premiers.qld.gov.au](http://www.premiers.qld.gov.au)  
ABN 65 959 415 158

**Kelly Skuse**

---

**From:** Patrick Vidgen  
**Sent:** Friday, 27 July 2012 11:09 AM  
**To:** Jon Grayson; Craig Evans  
**Cc:** Debbie Paterson; Annette Sargent  
**Subject:** FW: Internal Audit and Risk Services - partial contracting out of services

Jon / Craig

As I alluded to last night, below is a bit more detail in relation to the Union's issue with the co-sourcing model for internal audit.

I will update further later today.

Pat

Pat Vidgen  
Deputy Director-General | Governance | Department of the Premier and Cabinet  
Phone: 07 3224 6061 | Mobile: CTPI

---

**From:** Debbie Paterson  
**Sent:** Friday, 27 July 2012 11:05 AM  
**To:** Annette Sargent; Patrick Vidgen  
**Subject:** FW: Internal Audit and Risk Services - partial contracting out of services

Hi Pat/Annette,

Just spoke to Katrina McGill at PSIER and she advised me that Ross Musgrove, Senior Director, PSIER, will be meeting with Brett Hayward at 12.00pm today to discuss an appropriate response to below request. Following this meeting PSIER have indicated they would be happy to draft an appropriate response to forward to Together. I anticipate that this will be along the lines of 'we acknowledge your point however are going to proceed anyway given current economic situation and government's mandate for reform etc etc etc.....'

This will obviously lead to another dispute (no doubt very early next week) however PSIER advised me that they would once again be happy to support us with through this process.

In the meantime I have contacted Shannon Ellis from Together and confirmed that we will be responding today however may not be in a position to do this by 2pm but certainly before COB today.

So onwards we roll.....will forward you the proposed response to consider when received.

Regards  
Deb

**Debbie Paterson**  
Director, Human Resource Services | Department of the Premier and Cabinet  
Level 1, 100 George Street, BRISBANE Q 4002  
Ph: 3224 4652 | Fax: 3210 2848 | Email: [Debbie.Paterson@premiers.qld.gov.au](mailto:Debbie.Paterson@premiers.qld.gov.au)

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---

**From:** Debbie Paterson  
**Sent:** Thursday, 26 July 2012 2:10 PM

**To:** Patrick Vidgen; Annette Sargent  
**Subject:** FW: Internal Audit and Risk Services - partial contracting out of services

FYI and discussion at 2.30pm.

**Debbie Paterson**

Director, Human Resource Services | Department of the Premier and Cabinet  
Level 1, 100 George Street, BRISBANE Q 4002  
Ph: 3224 4652 | Fax: 3210 2848 | Email: [Debbie.Paterson@premiers.qld.gov.au](mailto:Debbie.Paterson@premiers.qld.gov.au)

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---

**From:** Shannon Ellis [<mailto:Shannon.Ellis@together.org.au>]  
**Sent:** Thursday, 26 July 2012 1:51 PM  
**To:** Debbie Paterson  
**Cc:** Dan Goldman  
**Subject:** Internal Audit and Risk Services - partial contracting out of services

Hi Debbie,

As I committed to undertaking during yesterday's meeting I have confirmed that Appendix 22 of the *State Government Departments Certified Agreement 2009* outlines the Government Policy on the 'Contracting-out of Services'. Contained within this Appendix are clear guidelines as to when a Department can contract out a service that is currently provided in house. It states:

'It is the policy of the Government that in order to maintain existing public service jobs, there will be no contracting-out of services currently provided in-house other than in circumstances where:

- actual shortages exist in appropriately skilled in-house staff;
- there is a lack of available infrastructure capital or funds to meet the cost of providing new technology; or
- it can clearly be demonstrated that it is in the public interest that services should be contracted-out.'

It is the view of the Union that the Department of Premier and Cabinet cannot partially contract out any of the services currently found within its Department, specifically those within Internal Audit and Risk Services, as the contracting out of such service does not meet the above circumstances. As such, any action that is currently occurring in relation to the contract out of services in Internal Audit and Risk Services must cease immediately.

Please advise that this process will be ceased immediately and confirm this by 2pm tomorrow.

Kind Regards,

Shannon Ellis  
Advocate  
Phone: 1800 177 244  
Email: [shannon.ellis@together.org.au](mailto:shannon.ellis@together.org.au)



*Together Queensland, Industrial Union of Employees is an amalgamation of the Queensland Public Sector Union, and the Australian Services Union (Clerical and Administrative) Central and Southern Queensland Branch. Together represents over 38 000 members working across Queensland. For more information about Together call 1800 177 244.*

## Kelly Skuse

---

**From:** Mitch Grayson [Mitch.Grayson@ministerial.qld.gov.au]  
**Sent:** Monday, 30 July 2012 10:39 AM  
**To:** Lee Anderson; Scott Whitby; Peter Walsh; Paul Leven  
**Cc:** Jon Grayson  
**Subject:** FW: Follow-up questions re internal audit

Hi All,

This request just arrived from Brisbane Times.

Who would have the answers to these questions?

Mitch

---

**From:** Daniel Hurst [mailto:DHurst@brisbanetimes.com.au]  
**Sent:** Monday, 30 July 2012 10:36 AM  
**To:** Mitch Grayson  
**Subject:** Follow-up questions re internal audit

Hi Mitch,

I have some follow-up questions to my enquiries last week (see email trail below). Please note I am not necessarily saying the "co-source" plans are a bad thing – but I just require some more detail/explanation.

1. How many people worked in DPC Internal Audit and Risk Services when the government was elected in March?
2. How many people will be required specifically in DPC Internal Audit and Risk Services under the plans to "co-source" audit functions?
3. Why is the government looking to change the approach to internal audit by using external resources?
4. I have been told PwC may have been engaged to provide these services? Is this the case and approximately how much will they be paid?
5. Are audit changes broader than DPC? I.e. is this part of a broader change of approach? Are audit functions to be outsourced/co-sourced across other government departments?

Seeking answers by 4pm today.

Thanks.

**Daniel Hurst**  
Journalist - State Politics/General News  
[brisbanetimes.com.au](http://brisbanetimes.com.au)

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---

**From:** Kylie Jacobson [<mailto:Kylie.Jacobson@ministerial.qld.gov.au>]

**Sent:** Tuesday, 24 July 2012 1:51 PM

**To:** Daniel Hurst; Mitch Grayson

**Subject:** RE: Enquiry re internal audit & ministerial services

Hi Daniel,

Just received an update – apologies for not sending this through earlier.

Answers remain the same for MSB.

1. Please confirm whether Internal Audit and Risk Services in the DPC has been discontinued/will be discontinued/is under consideration for removal. The DPC will always have an internal audit function but the government is looking at options to co-source. (DPC + external resources)
2. What is the reason for the changes to IARS and how many employees does this involve? What are the implications for corporate governance and standards? This is not as a cost saving measure. It is to ensure access to the most up to date global risk management expertise.

Cheers

Kylie

---

**From:** Kylie Jacobson

**Sent:** Tuesday, 24 July 2012 1:28 PM

**To:** 'Daniel Hurst'; Mitch Grayson

**Subject:** RE: Enquiry re internal audit & ministerial services

Hi Daniel,

Please see responses below. The Government is not removing either IARS or MSB. Another anonymous tip?

1. Please confirm whether Internal Audit and Risk Services in the DPC has been discontinued/will be discontinued/is under consideration for removal. NO
2. What is the reason for the changes to IARS and how many employees does this involve? What are the implications for corporate governance and standards? N/A
3. Please confirm whether the Ministerial Services Branch has been discontinued/will be discontinued/is under consideration for removal. NO
4. What is the reason for ending the Ministerial Services Branch and what will replace it in terms of reporting and checking ministerial spending and assisting in the making of appointments in ministerial offices etc? N/A

Cheers

Kylie

---

**From:** Daniel Hurst [<mailto:DHurst@brisbanetimes.com.au>]

**Sent:** Tuesday, 24 July 2012 1:02 PM

**To:** Kylie Jacobson; Mitch Grayson

**Subject:** Enquiry re internal audit & ministerial services

Hi Kylie and Mitch,

I am seeking confirmation that Internal Audit in the Department of Premier and Cabinet has been given the flick, as is the Ministerial Services Branch.

1. Please confirm whether Internal Audit and Risk Services in the DPC has been discontinued/will be discontinued/is under consideration for removal.

2. What is the reason for the changes to IARS and how many employees does this involve? What are the implications for corporate governance and standards?
3. Please confirm whether the Ministerial Services Branch has been discontinued/will be discontinued/is under consideration for removal.
4. What is the reason for ending the Ministerial Services Branch and what will replace it in terms of reporting and checking ministerial spending and assisting in the making of appointments in ministerial offices etc?

Seeking answers this afternoon.

Thanks,

**Daniel Hurst**  
**Journalist - State Politics/General News**  
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**Patrick Vidgen**

---

**From:** Patrick Vidgen  
**Sent:** Tuesday, 31 July 2012 8:42 AM  
**To:** Tim Herbert; Andrew Timperley  
**Subject:** Fwd: BT story on audit unit @ DPC

Sent from my iPhone

Begin forwarded message:

**From:** Lara McKay <[Lara.McKay@premiers.qld.gov.au](mailto:Lara.McKay@premiers.qld.gov.au)>  
**Date:** 31 July 2012 8:34:22 AM AEST  
**To:** Patrick Vidgen <[Patrick.Vidgen@premiers.qld.gov.au](mailto:Patrick.Vidgen@premiers.qld.gov.au)>  
**Subject:** BT story on audit unit @ DPC

<http://www.brisbanetimes.com.au/queensland/premiers-department-looks-to-outsource-auditing-20120730-239se.html>

**Lara McKay**  
Executive Director | State Services | Department of the Premier and Cabinet  
Phone: 07 32277968 | Mobile: CTPI | Fax: 07 3224 4065  
Level 2, Executive Building, 100 George Street, BRISBANE QLD 4000

**Patrick Vidgen**

---

**From:** Lisa Bell  
**Sent:** Wednesday, 1 August 2012 10:39 AM  
**To:** Patrick Vidgen  
**Subject:** Internal Audit  
**Attachments:** SIGNED VERSION OF DGBN DOC 12 137363.PDF; Attachment 2 Service Delivery Models.PDF; Attachment 1 Driving Value from Internal Audit Discussion Paper.PDF

Pat,

Please see attached documents regarding Internal Audit Functions.

Thanks,  
Lisa

RTI RELEASE

**DIRECTOR-GENERAL'S BRIEFING NOTE**

Governance

Tracking Folder No.12/18175

Document No.12/137363

**To:** Director-General  
**Date:** 13 July 2012  
**Subject:** Internal Audit Function

Approved / Not-Approved / Noted

Addressee

Date 18 July 12

**• RECOMMENDATION**

It is recommended that you:

- CTPI
- **note** the options papers prepared by the Acting Director, Internal Audit and Risk Services, DPC in relation to the service delivery models (**Attachment 2**);
- **endorse** the preferred option of a co-sourced model maintaining a DPC employee as the Head of Internal Audit with that person conducting functions and liaison relating to ethics, risk and audit (with services provided by an outsourced provider following an appropriate tender process); and
- **note** the preferred model should be cost neutral (or better) but will have initial staffing implications which will be managed through the current EMP process.

**• KEY ISSUES**

- DPC has traditionally been serviced by a small in-house audit team. This model of service delivery however, gives rise to limitations on the effectiveness of the service. Critically, it is difficult for a small team to have sufficient expertise across all areas of an agency which in itself, encourages audit work targeted to the teams' capabilities and not necessarily organisational weak spots.
- An outsourced or co-sourced model allows for the flexible use of resources to strategically target the areas of most significance in an organisation, whether that be financial controls or broader process, system and performance audits. Using external providers allows access to a broader, more contemporary and specialist skills set resulting in greater strategic benefit to an organisation.
- Section 78 of the *Financial Accountability Act 2009* requires the "accountable officer" to appoint an appropriately qualified Head of Internal Audit (HIA). The minimum qualification of the HIA is a standard accounting or Institute of Internal Auditors designation.
- Whilst an agency needs to nominate a HIA who requires a professional qualification and is either an employee of the department or of the State (with the Treasurer's approval), the internal audit function can be fulfilled internally, co-resourced or outsourced.
- Whilst the Treasurer can approve that the HIA function also be performed by the Chief Financial Officer, this is not recommended by the Queensland Auditor-General. The Treasurer can also appoint a HIA who is shared across multiple departments. Currently DPC uses an "in-house" internal audit function with a budget of around \$0.45M (being \$0.376M state revenue and \$0.075M from the Public Service Commission). There is planned additional revenue from Ministerial Offices for undertaking their internal audit work. This allocation funds 4 staff (SO1, AO8, AO7 and AO3), with the remaining \$0.006M for other costs. There is also an unfunded role in the area.
- Ernst & Young has prepared a discussion paper for DPC and advise that outside of Queensland, the majority of other States have outsourced or co-sourced internal audit functions (see page 6 of **Attachment 1**). The co-sourced model would retain a DPC HIA officer. The outsourced model (which involves higher internal budget savings) would merge

|   |   |
|---|---|
| Action Officer: Robynne Macgroarty<br>Area: ODDGG<br>Telephone: 3405 3757 | Approvals by Director / ED / DDG<br>documented in notes in TRIM |
|---|---|

**DIRECTOR-GENERAL'S BRIEFING NOTE**

Governance

Tracking Folder No.12/18175  
Document No.12/137363

the HIA function with the CFO function or assign the HIA function to another agency employee (e.g. using the HIA within Treasury or similar agency).

- The Acting Director, Internal Audit and Risk Services has also prepared options papers on the matter (**Attachment 2**).

- CTPI

- I have discussed the three options (status quo in-house, co-sourced or outsourced) with the Acting Director, Internal Audit and Risk Services, and we agree that the preferred model is a co-sourced model which would retain a Head, Internal Audit and Risk Services (and possibly modest administrative support).

- Retaining a sole in-house model can no longer be considered as providing the requisite benchmark service. A full outsourced model eliminates direct internal costs but may bring contract management challenges (and ultimately service delivery concerns) without a dedicated overseeing internal resource. The main benefit of the co-sourced model is the anticipated standard in the audit product and the potential for efficiencies compared with a full in-house model.

- If is further recommended that CTPI the department move directly to a tender process for a co-sourced model. It would be expected that the winning tender, would as its first job, conduct an organisational scoping exercise.

**• CONSULTATION**

- Queensland Auditor-General; Acting Director, Internal Audit and Risk Services; Acting Executive Director, Business Services, Queensland Treasury; and the Chair of the DPC Audit and Risk Committee, Mr Graham Carpenter. There is no opposition to the proposal.
- DPC provides internal audit services for the Public Service Commission and the Office of the Governor but there has been no consultation with either.

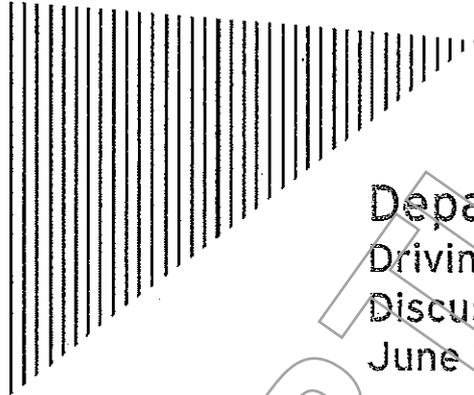
**• BACKGROUND**

- For independence, Internal Audit and Risk Services (IARS) reports directly to the Director-General with the Deputy Director-General, Governance having administrative responsibility for the area. The Director, IARS is also the secretary of the Audit and Risk Committee (ARC).

  
P J Vigen  
Deputy Director-General  
Governance

Comments

Action Officer: Robynne Macgroarty      Approvals by Director / ED / DDG  
Area: ODDGG      documented in notes in TRIM  
Telephone: 3405 3757



RTI RELEASE

Department of the Premier and Cabinet  
Driving Value from Internal Audit  
Discussion Paper  
June 2012



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RTI RELEASE  
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# 1. A mandate for change

## 1.1 Background

The new government in Queensland has created a mandate for change through empowering its agencies to challenge and increase the value they are delivering, specifically through:

- Enacting leadership changes across the public sector;
- Targeting cost reduction through greater efficiency of back office functions;
- Simplifying processes and reducing "red tape" without diluting accountability;
- Focusing on core government activities and considering opportunities for outsourcing.

The Department of the Premier and Cabinet ("Premiers") has experienced leadership and structural change as part of this transition. Whilst maintaining its core functions of Government services and policy, Arts Queensland has been disaggregated from the department.

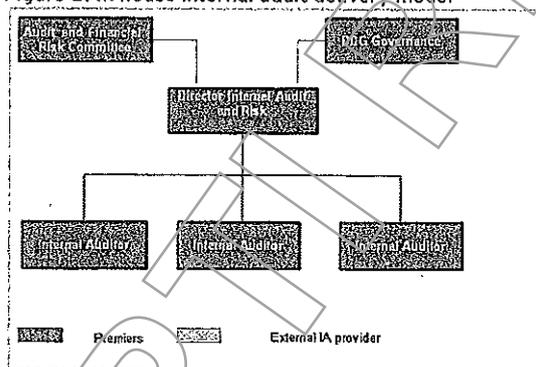
In light of these changes, Premiers has identified an opportunity to assess and improve the value delivered by Internal Audit through investigating alternative service delivery models. The Department is also considering how changes you implement may become a pilot model for internal audit across the Queensland Government more broadly.

This paper sets out the internal audit landscape at Premiers in the context of legislative requirements, identifies attributes of leading practice internal audit, articulates the key delivery models for internal audit and suggests next steps.

## 1.2 Internal Audit at Premiers

An "in-house" model for internal audit is established in Premiers comprising four staff, three of whom are currently acting positions. The approximate annual internal audit spend is \$400-500k. We understand that the Director of Internal Audit and Risk (Acting) reports functionally to the Deputy Director General Governance, and also has a direct reporting line to the Audit and Financial Risk Committee.

Figure 1: In house internal audit delivery model



Whilst this model has benefits of retaining organisational knowledge in-house, this is recognised in the internal audit community as an inflexible staffing model through which challenges arise, particularly for small teams in:

- Attaining expertise across a breadth of areas from within a small team;
- Achieving sufficient focus on key Department "hot spots"; and
- Recruiting resources with a cultural fit for the agency.

As a result, you are seeking to understand the different Internal Audit delivery models available.

## 1.3 Legislative Considerations

### Legislative Requirements and Guidance

The Financial Accountability Act 2009 section 78 contains a requirement for the Accountable Officer of a Queensland Government department to appoint an appropriately qualified Head of Internal Audit (HIA).

Information sheet 2.6 of the accompanying Financial Accountability Handbook (the "Handbook") identifies the minimum qualifications of the HIA as a standard accounting designation (CPA, CA, MIPA) or an Institute of Internal Auditors designation (MIIA or CIA).

The Handbook indicates that, in arrangements where an outsourced provider is used, an HIA must be nominated within the department. However, the Handbook also clarifies that the HIA role can, in small departments and with the written permission of the Treasurer:

- Be performed by the Chief Financial Officer in conjunction with his/her existing role;
- Be performed by a nominated public sector employee from another department or another employee of the state.

### Implications for Premiers

While Premiers must appoint an HIA, with the permission of the Treasurer, the department has the flexibility to:

- Engage an outsource provider to support delivery of internal Audit;
- Merge the HIA role with that of the nominated CFO;
- Seek to appoint an HIA who is shared across multiple departments.

## 2. Internal Audit Effectiveness - Benefits and Leading Practices

### 2.1 Leading Practice Internal Audit

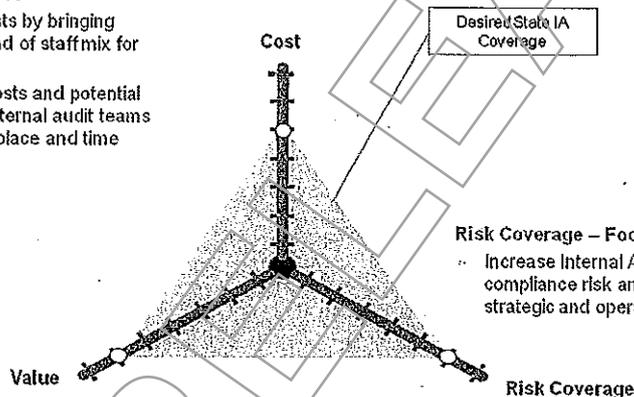
Leading practice Internal Audit delivers value to an organisation by ~~balancing risk, cost and value to be a key business enabler~~ by delivering benefits such as:

- ✓ Supporting achievement of strategy through involvement in strategic initiatives.
- ✓ Protecting and improving operations through a balance of assurance and advisory activities.
- ✓ Supporting and enabling an efficient risk and control infrastructure.
- ✓ Eliminating surprises through improved identification, understanding and mitigation of risks.
- ✓ Being a key source of timely and insightful information to management, the board and board committees.

Figure 2: ~~Balancing Cost, Value and Risk~~

#### Cost – “do more with less”

- Reduce structural costs by bringing together the right blend of staff mix for each internal audit
- Minimise overhead costs and potential staff downtime with internal audit teams deployed at the right place and time



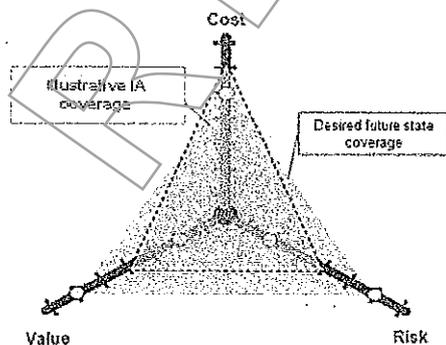
#### Risk Coverage – Focus on the risks that matter

- Increase Internal Audit focus beyond financial and compliance risk and increase coverage over key strategic and operational risks

#### Value - Be a business partner and agent for continuous improvement

- Increase internal audit focus beyond short to medium term priorities arising from business as usual and increase strategic objective and risk alignment
- Increase the quality of internal audit outcomes by bringing together teams with the appropriate mix of subject matter expertise

Based on our initial discussion with you and in our experience in working with other units across the Australian public sector, we have observed the following type of imbalance in Internal Audit value for ~~money~~



## 2.2 What is your investment in Internal Audit returning?

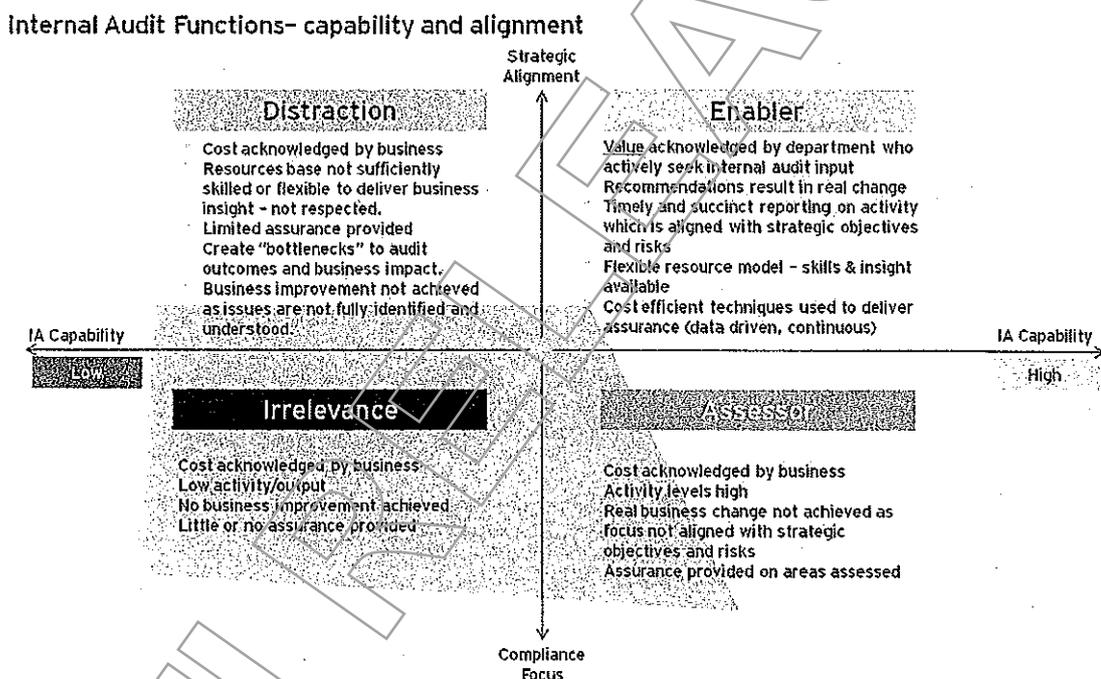
Premiers make a considerable investment in internal audit. In determining the need for change and the most appropriate future-state internal audit model for the department, it is important to consider what the current model is delivering in comparison to the desired state.

The following diagram illustrates the different roles that internal audit functions can typically deliver in an organisation. In the process of driving greater value through internal audit becoming an enabler of the department, it is important that both capability and strategic alignment are achieved:

- **Capability** - does your department have a diverse and high calibre internal audit skill set?
- **Strategic alignment** - does internal audit activity and business improvement recommendations support the effective achievement of the department's strategic objectives?

To fall short of expectations with respect to capability or strategic alignment will deliver an ineffective or sub-optimal service relevant to the investment made.

Figure 4: Internal Audit Functions- capability and alignment



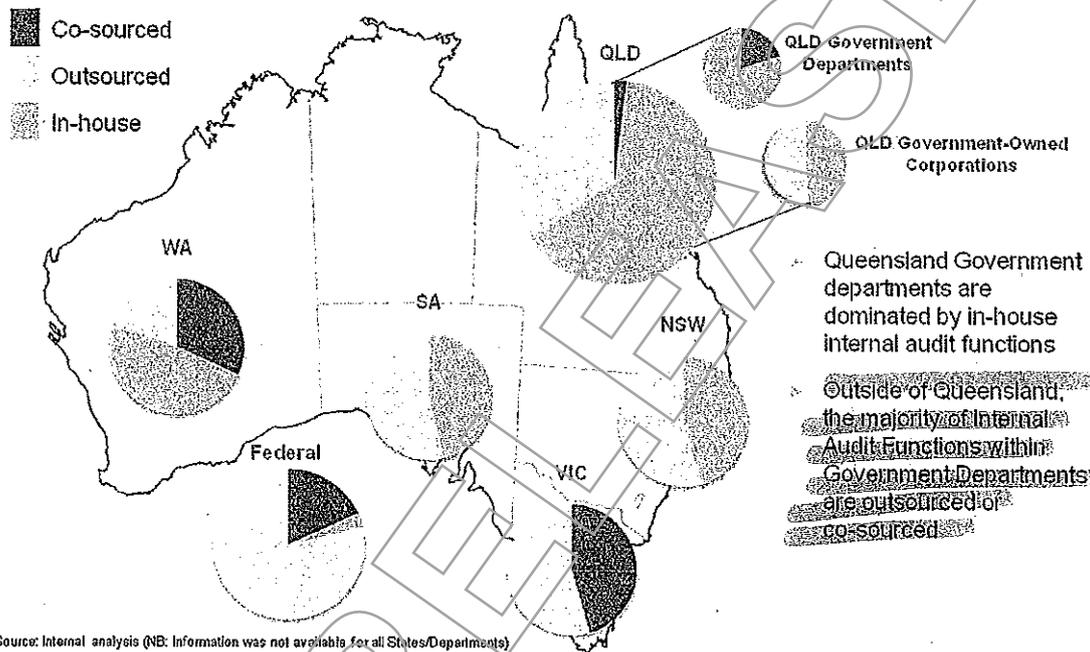
### 3. Internal Audit Models

As alternatives to the in-house model that Premiers currently uses, there are two other key models which are commonly applied across government in Australia:

- **Co-sourced internal audit** - an in-house team and outsourced provider are used in combination to deliver internal audit.
- **Outsourced internal audit** - all internal audit activity is delivered by an outsourced provider.

These models are presented on the following pages.

Figure 4: Internal Audit models in government



### 3.1 Co-sourced Internal Audit Model

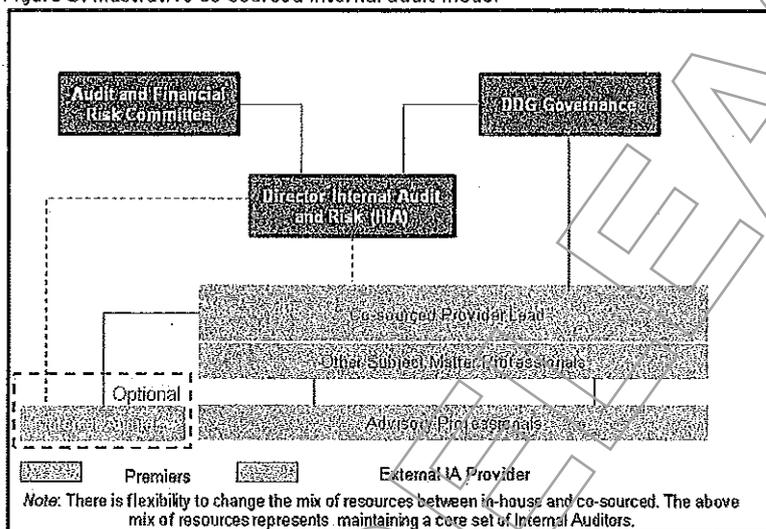
Co-sourced internal audit involves using a combination of in-house and outsourced provider resources.

It is highly flexible from a staffing perspective, with the level of external support used dependent on the nature and volume of skills available in-house. Examples of practical applications of this model include:

- Retention of one in-house resource as HIA. This resource provides a liaison point for an external provider who performs the internal audit fieldwork.
- Retention of an in-house team. Some projects on the plan are delivered by the in-house team, some by the external provider and some in combination, depending on the subject matter (refer to figure 5 below).
- Retention of an in-house team which is only supplemented by subject matter resources of an external provider.

For example, a co-sourced model could be established in the following form at Premiers:

Figure 5: Illustrative co-sourced internal audit model



Key benefits of this model include:

- Retain experienced internal auditors and departmental knowledge
- Access to external provider capacity and resilience
- Broader risk assurance coverage
- Ability to change the mix and volume of resources
- Access to subject matter professionals, bringing their deep specialist expertise
- Highly flexible model
- Access to benchmarking and leading practices

Key challenges of this model include:

- Cultural integration of different audit teams
- Existing personnel development challenges
- Attracting and retaining HIA of appropriate calibre
- People decisions (retain, transfer, separate)

Whilst this model would be expected to yield cost savings compared to the existing model, these would be limited as a result of the fixed salary component attached to the critical HIA role. However, there may be some opportunity to share the HIA resource with another Department or a cluster of smaller Departments which could yield significant efficiencies.

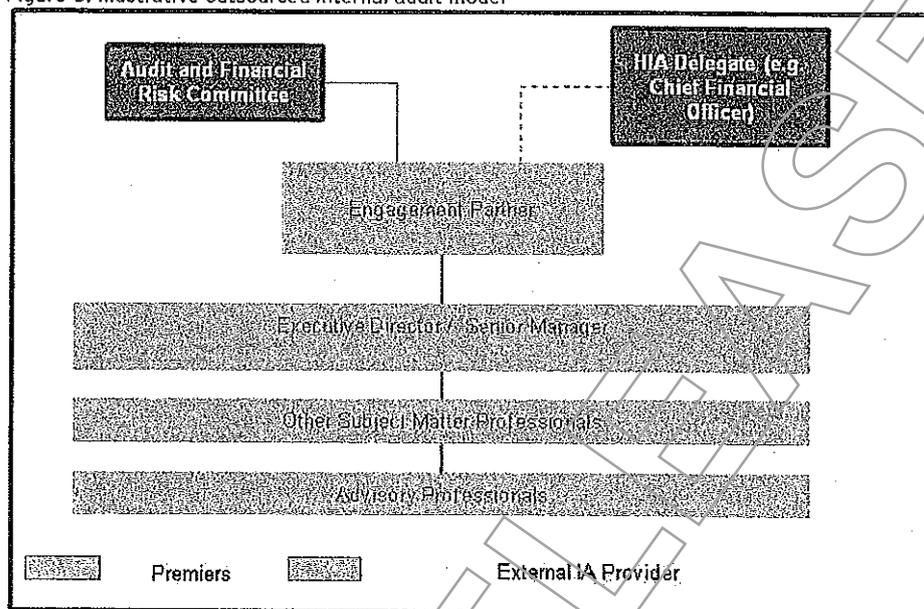
### 3.2 Outsourced Internal Audit Model

The outsourced internal audit model involves all internal activity being performed by an external provider.

At Premiers, this would mean that the HIA role would be undertaken by the CFO in conjunction with his/her existing duties, or assigned to a state government employee of another agency.

For example, an outsourced model could be established in the following form at Premiers:

Figure 6: Illustrative outsourced internal audit model



Key benefits of this model include:

- Limited in-house time invested in managing the internal audit function
- Increased independence of provider
- Most flexible to expand/contract resources to cover risk profile
- Ability to transition to co-sourcing model, if desired
- Access to subject matter professionals
- Access to benchmarking and leading practices

Key challenges of this model include:

- Change management and communication considerations
- Assignment of HIA and required application for approval to Treasury
- People decisions (retain, transfer, separate)
- Loss of departmental knowledge retained within current in-house team

In the case of Premiers, this is likely to result in significant cost savings compared to both the current model and the co-sourced model.

### 3.3 Case Study - Internal Audit Outsourcing in Government

Co-sourcing and outsourcing internal audit models are commonly applied in many government departments outside of Queensland. We present the following case study to illustrate how these arrangements operate in practice:

| Client Case Study   |  |
|---------------------|--|
| Client              | Department of Transport - Victoria ("DoT")   |
| Engagement          | Co-sourced Internal Audit  |
| Model Operation     | An in-house Director Audit and Assurance is in place who leads the internal audit program. This Director operates at an executive level within the Department. All internal audit project activity performed by E&Y.   |
| Background          | The Department of Transport outsourced its internal audit to Bird Cameron until 2005. This was managed from its Executive Services area. In 2005 the Department created an Audit and Assurance Branch and Ernst & Young won a competitive tender to provide internal audit services to the Department.   |
| Services Provided   | <p><b>Core Internal Audit</b><br/>Development and execution of the internal audit program which is designed to provide assurance on the management of key risks and mandatory regulatory/compliance areas. Key activities include:</p> <ul style="list-style-type: none"> <li>• Preparation of four year internal audit plan</li> <li>• Preparation of an assurance map for key risks</li> <li>• Financial, operational and compliance audits over such areas as executive expenses, government corporate purchasing cards and human resources</li> <li>• Fraud risk assessments and investigations</li> <li>• Business improvement and advisory services (eg project management and procurement)</li> </ul> <p><b>PlanAssure</b><br/>E&amp;Y also provides internal audit assurance over aspects of the Government's Transport Agenda. We developed and implemented the PlanAssure program to complement the existing internal audit program.</p> <p>PlanAssure consists of a series of internal audits designed to provide more real-time, independent assurance and reporting over key programs, projects (eg Regional Rail Link) and related processes such as governance, contingency management and environmental management.</p> <p>It is planned that the Victorian Auditor-General's Office will examine PlanAssure as part of its performance audit program.</p> |
| Outcomes / Benefits | <p>Through the internal audit co-sourcing, the DoT acknowledges the following benefits:</p> <ul style="list-style-type: none"> <li>• Independence and objectivity</li> <li>• Access to a deep pool of capable professionals and subject matter experts and to Ernst &amp; Young's methodologies, tools and enablers</li> <li>• Use (and reporting) of E&amp;Y Internal Audit transformation methodology, including Behavioural Auditing, Audit Response Continuum and Lines of Defence</li> <li>• Networking benefits (a project reference group has been formed with the London Olympic Development Authority and others)</li> <li>• Use of leading practice audit techniques on projects including Data Analytics.</li> </ul>  |
| Referee             | <p>Dr Len Gainsford<br/>Director Audit and Assurance<br/>Department of Transport - Victoria<br/>121 Exhibition Street Melbourne Victoria<br/>Ph: 03 9655 6530<br/>len.gainsford@transport.vic.gov.au</p>   |

## 4. Next Steps

We would be pleased to discuss this paper with you in person to share our thoughts and ideas on the most effective course of action for Premiers.

To confirm that a case for change exists, we suggest three initial steps. We are ready to support you in any or all of these steps:

### 1. Consult with others on their experience

We suggest that you contact Len Gainsford, Director Audit and Assurance at the Department of Transport Victoria, to garner his insights on how internal audit co-sourcing/outsourcing can be effectively delivered in Government.

### 2. Engage with your key stakeholders

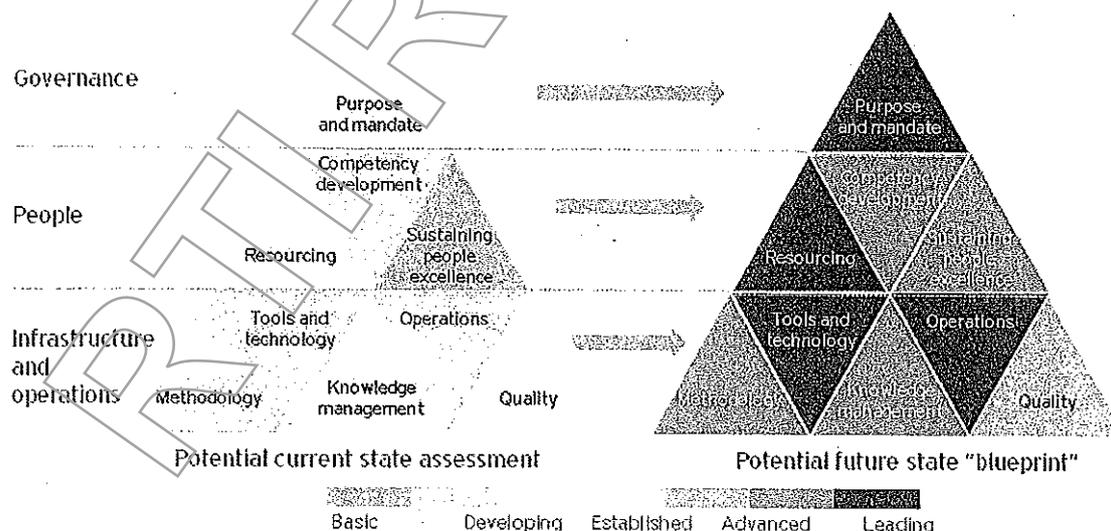
To validate and develop a case for change, we would suggest that the current state of internal audit is assessed and/or confirmed through engagement of key stakeholders of Premiers, for example:

- Audit and Financial Risk Committee Chair
- Director General
- Chief Financial Officer
- Director of Risk and Internal Audit (HIA)
- Other Key Executive

### 3. Critically assess key elements of the Premiers Internal Audit function

To fully establish the business case for change, a detailed assessment of your Internal Audit function will assist in identifying gaps, future state expectations and key actions required. In performing this assessment, we would propose to examine each of the key building blocks of the function as illustrated below:

Figure 7: Key Building Blocks of an Internal Audit Function



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RTI REQUEST

Pages 95 through 107 redacted for the following reasons:

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Sch3(8) - Information disclosure of which would found action for breach of confidence



Department of Premier and Cabinet  
 Provision of Internal Audit and Risk Services  
 Option 3 - Co-sourced model - In-house Head of Internal Audit (HIA)  
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**Preferred Model for DPC – Internal Audit and Risk Services – In-house HIA plus external provider resources**

The advantages and disadvantages of five alternative models for the provision of Internal Audit has been analysed in the paper titled "Analysis of Service Delivery Models for Internal Audit" to determine the preferred approach for the provision of an efficient, effective and economical Internal Audit function for DPC.

The paper stated that the preferred model for DPC is a flexible, co-sourced model with an in-house Head of Internal Audit and access to external provider resources. The key advantage of this model is that it provides the 'best of both worlds' or the 'best of breed' – a stable internal audit role within the agency supporting a culture of strong governance, risk management and internal control, supplemented by access to leading edge skills from the external provider/s.

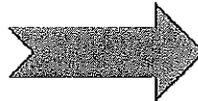
In relation to risk management, the paper advised that the DPC risk management function also sits with the DPC Internal Audit and Risk Services team and that the prevailing best practice is to maintain an in-house risk management function supplemented by technical advice and education from external specialists as required.

It is not considered to be effective and efficient to separate risk management out from Internal Audit at this time. They are compatible functions and the external service providers generally have strong risk management capabilities which could be taken advantage of under the co-sourced model selected.

This paper further articulates how the preferred model would be implemented within the Department. The following diagram provides a high level view of the change to the current arrangements:

**CURRENT MODEL**

- Head of Internal Audit and Risk Services (S03)
- Audit Manager (A08)
- Principal Project Officer (Risk) (A07)
- Auditor (A06)
- 0.6 X Administrative Support Officer (A03)



**PREFERRED MODEL**

- Head of Internal Audit and Risk Services
- Administrative Support
- External Provider of Internal Audit services plus advice and ad hoc services in relation to risk management

The impact on current Internal Audit resources is outlined later in the document.

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The preferred model could be implemented in a number of ways. The following models are considered to be the most appropriate:

1. Independent, standalone HIA team reporting directly to the Director-General on audit and risk matters with administrative reporting line to Deputy Director-General, Governance;
2. Independent, standalone HIA in "Office" of Deputy Director-General – Governance reporting directly to the Director-General on audit and risk matters with direct administrative reporting line to Deputy Director-General, Governance;
3. Independent, standalone HIA reporting directly to the Director-General (part of the Office of the Director-General) on audit and risk matters;
4. HIA is Director, Internal Audit, Risk Management, Planning and Reporting. Direct reporting line to the Director-General on Internal Audit and Risk matters. Direct reporting line to Deputy Director-General Governance on all other matters.

It is anticipated that the in-house Internal Audit and Risk function would be responsible for:

- Arranging, managing and reviewing Internal Audit contract/s with external service provider/s (3 yr contracts);
- Review and approval of Strategic Internal Audit Plans and Annual Internal Audit Plans provided by external service provider;
- Review and approval of Internal Audit 'Engagement Memorandums' and 'Reports' provided by external service provider;
- Provision of ad hoc advice and audit assistance where outside of contract with external provider or required urgently;
- Secretariat for the DPC Audit and Risk Management Committee;
- Risk Management - methodology, facilitation and reporting (informed by regular reviews undertaken by external service provider over contemporary approach to risk management);
- Provide DPC response to whole of government matters in relation to internal audit, risk management and governance;
- Provide response to relevant correspondence on behalf of the Director-General and Premier as required;
- Audit Committee member – Great Barrier Reef Marine Park Authority and advisor to Director-General on related financial matters.

It is assumed that:

- The Head of Internal Audit and Risk Services will be sufficiently senior to negotiate and manage contracts with Partners of external audit service providers and liaise with Executive Directors and Directors/Managers across DPC;
- The Head of Internal Audit is appropriately qualified and experienced;

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- The Head of Internal Audit and Risk Services will have appropriate administrative support (required to support risk management function, secretariat function, financial control, diary management);
- Accommodation will need to be provided for external service provider staff throughout the year. There may not be significant savings in accommodation costs.

Common advantages of retaining the HIA function plus use of external service provider under all of the models include:

- HIA continues to provide cost-effective approach to Risk Management informed by leading edge thinking provided by external service provider;
- A strong HIA presence (a seat at the table) acts as a catalyst for a strong risk and compliance culture within the agency. Internal Audit visibility is a control in itself;
- HIA continues to perform all other responsibilities of Internal Audit and Risk Services.
- HIA in place to perform contract management role over external resources;
- HIA in place to review strategic and annual plans, engagement memorandums and reports provided by external provider to ensure value for money, contextually relevant and quality provision of Internal Audit;
- HIA role in place internally means less risk of cross-selling of other products / services in audit reports by external providers;
- Audit documentation maintained on-site;
- Internal relationships built and maintained between HIA and management and staff;
- External relationships built and maintained between HIA and other auditors across the sector and wider community and with the QAO;
- HIA works with DPC management and staff to resolve issues raised and reduce the likelihood of adverse audit issues being raised by the QAO;
- Internal HIA function can operate as a training ground for future, senior staff – in many agencies former audit staff are operating in senior roles in Finance, Governance and other areas.

An analysis of the distinct advantages and disadvantages of each model is provided below:

1. **Independent, standalone HIA team reporting directly to the Director-General on audit and risk matters with administrative reporting line to Deputy Director-General, Governance:**

*Advantages*

- Retain full independence, objectivity in function;
- Very similar to current approach. Cost to implement is minor;
- Deputy Director-General Governance has been administrative report for Internal Audit for some time and knows the function. HIA has support of the Governance Division and Deputy Director-General - Governance.

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*Disadvantages*

- There may be additional administrative costs for the separate team e.g. accommodation, elements of administration (which may or may not be cheaper if co-located with another areas e.g. Office of Deputy Director-General);
- Organisational isolation – a small team of two people;

**2. Independent, standalone HIA in Office of Deputy Director-General – Governance reporting directly to the Director-General on audit and risk matters with direct administrative reporting line to Deputy Director-General, Governance:**

*The Model*

- HIA role is part of Office of Deputy Director-General – Governance. HIA reports administratively to the Deputy Director-General – Governance. HIA reports to Director-General directly on audit and risk matters.

*Advantages*

- Save cost of totally separate Internal Audit function / cost centre e.g. accommodation, administration costs e.g. separate corporate card. May save costs of purely administrative tasks e.g. purchasing, reporting, etc to allow greater focus on the business on Internal Audit and Risk e.g. secretariat function, risk management process and reporting etc;
- Similarities to current approach. Fairly quick and efficient to implement;
- Potential to share administrative resources within Office of Deputy Director-General Governance and save money;
- Deputy Director-General Governance has been administrative report for Internal Audit for some time and knows the function. HIA has support of the Governance Division and Deputy Director-General - Governance;
- Whilst reporting directly to the Director-General, this model has the advantage that the HIA is part of the Governance Division 'team'. A significant portion of the audit coverage occurs within this Division – HIA is seen as a part of it – not a separate, distinct entity;
- Less likelihood of organisational isolation for HIA and administrative support.

*Disadvantages*

- Perception of reduced independence, objectivity (NB there is an administrative reporting line to Deputy Director-General only and it is the current model);
- Increases direct size/budget of Office of the Deputy Director-General which may be unpalatable;
- Accommodation may be a challenge if there is a requirement for HIA to be co-located within the Office of the Deputy Director-General. This should not be necessary if it costs a significant amount to make this happen.

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**3. Independent, standalone HIA reporting directly to the Director-General (part of the Office of the Director-General) on audit and risk matters:**

*The Model*

- Head of Internal Audit and Risk Services reports directly to Director-General and is a part of the Office of the Director-General.

*Advantages*

- HIA role is part of Office of Director-General – clearly reinforces independence and objectivity of role;
- Reduces reliance / overhead on Deputy Director-General Governance / Governance Division;
- Stronger relationship between Director-General and HIA – better ability for HIA to support objectives and performance of DPC on behalf of Director-General;
- Potential to share administrative resources within Office of Director-General;
- May save costs of purely administrative tasks e.g. purchasing, reporting, etc to allow greater focus on the business on Internal Audit and Risk e.g. secretariat function, risk management process and reporting etc;
- Less isolated organisationally.

*Disadvantages*

- Administratively, this may take some time to implement e.g. accommodation, reporting lines etc;
- Accommodation would be required for external provider staff – this may not be appropriate on Level 15;
- Increases direct size/budget of Office of the Director-General which may be unpalatable;
- Director-General has another direct report – this may not be desired;
- Question of whether HIA is a direct report to Director-General on all matters including administrative matters e.g. leave applications, expenditure etc;
- Accommodation may be a challenge if there is a requirement for HIA to be co-located within the Office of the Director-General. This should not be necessary if it costs a significant amount to make this happen.

**4. The HIA is the Director, Internal Audit, Risk Management, Planning and Reporting:**

*The Model*

- HIA is Director, Internal Audit, Risk Management, Planning and Reporting;
- Direct reporting line to the Director-General on Internal Audit and Risk matters;
- Direct reporting line to Deputy Director-General Governance on all other matters;
- Administrative reporting line to Deputy Director-General Governance;
- Head of Internal Audit and Risk Services is now also responsible for:
  - Corporate Planning;

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- Corporate Reporting;
- All other required functions of Corporate Planning and Reporting team.

*Advantages*

- The size and scope of this team may be more appropriate organisationally to be led by a Director over the smaller 2 person team;
- There may be scope to save or combine some resources in the new Corporate Planning and Reporting team (unsure at 9 July 2012);
- Save cost of totally separate Internal Audit function / cost centre e.g. accommodation, administration costs e.g. separate corporate card;
- Potential to share administrative resources across the whole team;
- May save costs of purely administrative tasks e.g. purchasing, reporting, etc to allow greater focus on the business on Internal Audit and Risk e.g. secretariat function, risk management process and reporting etc;
- Whilst reporting directly to the Director-General on audit and risk matters, this model has the advantage that the HIA remains a part of the Governance Division 'team'. A significant portion of the audit coverage occurs within this Division – HIA is seen as a part of it – not a separate, distinct entity.

*Disadvantages*

- A greater level of complexity in reporting arrangements (it can be done);
- Perception of reduced independence, objectivity of internal Audit role;
- May dilute the focus on Internal Audit to other matters e.g. planning and reporting;
- Director of unit will need to be appropriately qualified and experienced in Internal Audit, Risk Management (as well as have capability in relation to planning and reporting);
- Any audits or planning or reporting will need to be carefully managed to ensure independence and objectivity;
- Accommodation may be a challenge re co-location of staff.

**Preferred Model**

- There are advantages and disadvantages of all the above models and many of the advantages and disadvantages are common to many or all models;
- If the overriding goal is to reduce cost, further detailed analysis will be required to compare the costs of each model;
- If the desired outcome is an efficient and effective model for delivery of Internal Audit and Risk Services it is considered that models 2 and 3 are reasonable options. Model 1 provides no great advantages over the other models and increases the risk of organisational isolation for the HIA and support staff. Models 2, 3 and 4 have similarities in that the HIA is part of a larger group with the potential to access shared resources and reduce costs. The best model will need to be decided by the Director-General and Deputy Director-General. Model 4 has the potential to compromise the

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focus on internal audit matters, however, may enable some savings, and may be preferred organisationally in terms of the size of the team to be led by a Director level role.

**Model for provision of DPC Risk Management**

- It was stated above that the HIA would continue to have responsibility for risk management – methodology, facilitation and reporting.
- In the immediate period, under the existing model for Internal Audit and Risk Services, the HIA will continue to support the current risk management approach without any risk management resources (current resource is on long term leave).
- With the approval for an outsourcing arrangement it is proposed that the first review to be conducted by the outsourced provider is a review of DPC Risk Management approach with recommendations for improvement to the process. This may identify alternative (more efficient, effective) ways of managing risk and may involve the periodic use of external provider resources.

**Impact on permanent staff within Internal Audit and Risk Services**

- There are currently 2.6 permanent staff within Internal Audit:
  - CTPI Principal Project Officer (Risk) – A07: CTPI
  - CTPI Audit Manager (A08) CTPI
  - Administration Officer (A03) – part-time.
- All other staff in the unit are temporary staff with contracts ending at 26 October 2012 (2 staff) and 28 September 2012 (1 staff).
- Once a firm decision is made regarding the model going forward, action will need to be taken to understand the impact on the positions of these staff, the staff members' preferences for their careers and the impact on the budget position of Internal Audit.

**Options for securing a Head of Internal Audit:**

- The role is currently being filled by a secondee from the Department of Science, Information Technology, Innovation and the Arts.
- There is an option to maintain this staff member in role for a period of time to enable stabilisation of selected model;
- The position could be declared vacant to the PSC and a suitable employee requiring placement (ERP) could be sought/ If no suitable ERP – advertise publicly;
- Fill position through other allowable recruitment mechanisms e.g. transfer at level of staff from another agency OR by direct appointment - on 11 April 2013, current staff member will have been in the role for one year and has been through a merit based recruitment exercise – there may be scope for direct appointment.

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## OVERVIEW

### Definition of Internal Audit (Institute of Internal Auditors (IIA))

According to the definition of Internal Auditing in the IIA's International Professional Practices Framework, 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.

### Department of Premier and Cabinet (DPC) Internal Audit and Risk Services

The DPC Internal Audit and Risk Services team is responsible for:

- Annual development of Strategic Internal Audit Plans and Annual Internal Audit Plans;
- Management and conduct of Internal Audits by internal staff and external contractors /resources as required – DPC / PSC / OQPC.
- Contract management – over Internal Audit contracts with external providers;
- Supporting QAO in the review of annual financial statements as requested;
- Monitoring and reporting of outstanding Internal Audit and QAO issues;
- Facilitating Risk Management activity and reporting;
- Performing secretariat function for the Audit and Risk Management Committee;
- Annual reviews of Internal Audit, Risk Management and the Audit and Risk Management Committee performance;
- Responding to whole of government matters in relation to internal audit, risk management and governance;
- Responding to relevant correspondence on behalf of the Director-General and Premier as required;
- Audit Committee member – Great Barrier Reef Marine Park Authority and advisor to Director-General on related financial matters.

The team currently includes a Director and two Internal Auditors. The team qualifications and experience include:

- AO6 – 10 yrs internal and external audit experience in Australia, Hong Kong and China / government and private / Masters in Commerce / CIA / CPA Hong Kong.
- AO7 – 10 yrs external audit experience Australia and Singapore / government and private / Chartered Accountant / BBus.
- A/Director Internal Audit and Risk Services - 20 years internal / external / financial / risk management experience government and private sector / CPA / Certified Internal Auditor (CIA) / Certified Information Systems Auditor (CISA) / Certified Government Audit Professional (CGAP) / BBus.

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### The Department of Premier and Cabinet

The Department of Premier and Cabinet (DPC) is a unique entity. Whilst small in size, it is significant in function. As one of Queensland Government's key central agencies, the actions of the Department influence the actions of all other agencies. In establishing new arrangements for Internal Audit, DPC needs to ensure the best outcome for the Department and ultimately for Queensland Government in supporting all Directors-General in meeting their accountability and performance obligations in this time of overwhelming change.

Internal Audit arrangements should support DPC and ultimately, other agencies to:

- Meet Government commitments in this period where loss of control may occur, e.g. during times of critical policy, service delivery, business system and staffing change;
- Ensure continuity of service delivery and avoid service delivery failure due to complexities in cross agency matters (e.g. service agreements; policy responsibility vs delivery responsibility), poor procurement and operations, information communication and technology [ICT] systems changes / consolidations;
- Ensure risks are identified and management (not hidden);
- Ensure the efficient use of existing resources and reduce the potential for maladministration through reduction in staff exercising key controls;
- Ensure that reliable information is available to support decision making (e.g. reduce risk that agencies don't have or can't trust the information available);
- Mitigate the increased opportunities for fraud and corruption (resulting from the anticipated staff reductions, IT changes, machinery of government changes, changes to internal control environments, increases in use of electronic means for facilitating payments).

### Australian National Audit Office: *Public Sector Internal Audit Better Practice Guide* (September 2007)

This Better Practice Guide to Internal Audit observes that, similar to the Queensland Government, within the Australian Government sector, internal audit is performed in a range of entities that vary considerably in purpose, size, structure, and complexity. As a result, there is a range of models used to deliver internal audit services i.e. in-house, co-sourced, out-sourced and variations of each of these models.

The guide states that each model has its benefits and its risks. The most appropriate model will depend on the entity's particular needs that could well change over time as circumstances change. It is important, therefore, to periodically consider which service delivery model will best suit the entity's needs.

To decide on the appropriate service delivery model the guide recommends considering the following:

- Ability to attract and retain suitable staff  
 For a variety of reasons it may be difficult to attract and retain suitably skilled in-house audit staff. As a consequence, co-sourcing or outsourcing the internal audit function to an external service provider, who assumes some or all of the responsibility for recruiting and managing the

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Analysis of Service Delivery Models for Internal Audit.

Tracy Laurence-Johnson, A/Director Internal Audit and Risk Services

required staff, may be an effective means of overcoming staff shortages. Alternatively, the development and implementation of a comprehensive staffing strategy as part of the internal audit strategic business plan may be successful in obtaining sufficient staff with the necessary skills and experience.

- **The skills and experience required**  
Generally, in-house staff could be expected to have a greater knowledge of the entity's business objectives, systems, risks and culture. They can be seen as 'part of the team' and can be more easily approached for informal and ad hoc advice. There are no issues over possible conflicts of interest and there is more direct control over the quality of work undertaken. Corporate knowledge may also be more readily retained by in-house staff and in-house internal audit units are in a position to offer a good training ground for future senior managers. On the other hand, service providers may have access to leading practices and expertise from the public and private sectors in Australia and overseas that may be helpful to the entity.
- **Cost**  
The cost of in-house provision compared with the alternatives is a key consideration. It is important when comparing costs to take into account the full costs of the different options including the salaries of in-house staff plus overheads such as training, leave, superannuation, staff management, accommodation and facilities. In the case of co-sourcing or outsourcing, the costs of contract management as well as of the contract itself should also be taken into account.
- **Flexibility**  
Many internal audits require access to special technical audit skills from that are either not available or not cost-effective to maintain in-house. The ability to respond quickly to new requests for audits without disrupting the planned programme or the need to resource workload peaks can also be important. Co-sourced or outsourced arrangements may be able to provide the required flexibility in such circumstances.
- **Viability**  
For some small entities there may not be the critical mass to make an in-house internal audit function viable and sustainable. Small internal audit units may find it difficult to supply sufficient staff with the full range of skills necessary to undertake a comprehensive internal audit plan. In this situation, there is a risk the audit plan will be determined more by the skills of the staff available rather than the needs of the entity. Limited career progression and development opportunities can also act as a disincentive for the recruitment and retention of staff.

Queensland Audit Office Report: Report No. 5 – 2012 - Results of Audits – Internal Control Systems raises concerns over effectiveness of internal control structures within departments

The report tabled on 28 June 2012 summarised findings in relation to the effectiveness of financial controls, the effectiveness of fraud controls and IT governance. Section 3.1 of the report *Managing fraud risk* explained that an ongoing theme raised in QAO reports Parliament has been the risk of fraud. The report reiterated the importance of an effective system of internal control as both a preventative and detective countermeasure to the incidence of fraud. The report further emphasised that the internal control structures within departments are being increasingly challenged because of:

- regular transfers of functions and staff both within departments, and as part of machinery of government changes—there have been four significant restructures in the past six years increasing the risk that lines of responsibility, authority and accountability become blurred thereby weakening the control environment

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- the loss of experienced and key staff through voluntary separation programs (VSPs)—during the 2012/13 financial year in excess of 4200 non front-line departmental staff have accepted a voluntary separation package leading to a heightened risk of loss of corporate knowledge and experience in the 'back office' where most internal financial control activities operate (NB Four staff from DPC Internal Audit took VSPs).
- the need to do more with less as required by budget savings—increasing the risk that resources will be diverted from necessary internal control monitoring measures, such as Internal Audit (e.g. current DPC budget is insufficient to fund the establishment; the professional development budget per professional internal auditor is \$500 per person – not sufficient to fund a day's training).

The new government should ensure that Internal Audit arrangements are not compromised in this time of transition to greater accountability and efficiency, economy and effectiveness across Government.

#### Ernst & Young - Driving Value from Internal Audit – Discussion Paper – June 2012

The Ernst and Young discussion paper "Driving Value from Internal Audit" provides a sound overview of alternative models for the delivery of Internal Audit, however, is not completely accurate in its diagram (page 6) in relation to the models currently applied across the Queensland Government. Most Government organisations in Queensland already use a combination of internal staff and staff provided by external organisations i.e. co-sourcing. Agencies use a combination of in-house resources (or a designated Head of Internal Audit (HIA)) plus resources from chartered accounting firms, specialist firms in IT and risk management and specialist contractors, among others.

Most organisations have determined the best fit of resources based on the maturity, size, risk profile and nature of the organisation. The Ernst and Young model does not provide a revolutionary new approach. As mentioned above, the Department of Premier and Cabinet makes use of internal staff and contract resources as required.

#### Advantages and Disadvantages of alternative service delivery models for Internal Audit

The following five options for the delivery of Internal Audit have been analysed for application to the Department of Premier and Cabinet (and ultimately, other agencies).

1. Full in-sourced model – no external resources – this model would be moving backwards from the current arrangements in place within the Department and is not recommended;
2. Co-sourced model with in-house Internal Audit resources and external provider resources;
3. Co-sourced model with in-house HIA only and external provider resources;
4. Out-sourced model with no internal audit resources internally – CFO to operate as designated HIA with external provider resources;

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5. Out-sourced model with no internal audit resources internally – Another agency HIA to operate as designated HIA.

Table One below outlines the advantages and disadvantages of the alternative models 2 – 5.

#### Risk Management

The risk management function also sits with the DPC Internal Audit and Risk Services team. Prevailing best practice is to maintain an in-house risk management function supplemented by technical advice and education from external specialists if required.

RTI RELEASE

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Analysis of Service Delivery Models for Internal Audit  
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Table One: Advantages and Disadvantages of Service Delivery Models for Internal Audit

| Alternative Internal Audit Service Delivery Models  | ADVANTAGES   | DISADVANTAGES / RISKS   |
|---|--|---|
| <p><b>2. Co-sourced model - Internal Resources</b></p> <ul style="list-style-type: none"> <li>• In-house HIA plus in-house Internal Auditors plus use of specialist external resources as required</li> <li>• <b>CURRENT DPC MODEL</b></li> <li>• <b>PREFERRED MODEL FOR QLD GOVERNMENT AGENCIES GENERALLY</b></li> </ul> | <ul style="list-style-type: none"> <li>• Low cost – DPC Internal Audit has reduced in size and budget significantly over last 10 years despite increasing cost of the public sector in Queensland.</li> <li>• Internal DPC staff commitment to supporting Department and Director-General achieve the stated objectives / performance.</li> <li>• Internal HIA with qualifications and experience per financial legislation.</li> <li>• HIA performs contract management role over external resources to ensure value for money provision of internal audit.</li> <li>• HIA reviews reports from internal and external resources prior to issue to senior management to ensure quality control and appropriateness of recommendations in DPC context.</li> <li>• Flexible blend of in-house and external resources as required to suit the changing role and risk profile of the department.</li> <li>• Supplement skill and knowledge gaps with external resources.</li> <li>• Audit documentation maintained on-site.</li> <li>• In-house function remains independent and objective – ‘no fear or favour’</li> <li>• Current function, infrastructure in place e.g. audit software in place. No cost to change.</li> <li>• The in-house Internal Audit function is a key part of the corporate culture and corporate governance of DPC. Internal Audit is also responsible for the department’s risk management framework.</li> <li>• A strong internal audit presence (a seat at every table) acts as</li> </ul> | <ul style="list-style-type: none"> <li>• Maintain full cost of internal resources and infrastructure.</li> <li>• Internal resources - retaining appropriate skill sets / experience / qualifications as current staff move on.</li> </ul> |

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| Alternative Internal Audit Service Delivery Models | ADVANTAGES   | DISADVANTAGES / RISKS |
|--|--|-----------------------|
|  | <p>a catalyst for a strong risk and compliance culture within the agency. Internal Audit visibility is a control in itself.</p> <ul style="list-style-type: none"> <li>• Internal relationships built and maintained between internal auditors and management and staff.</li> <li>• External relationships built and maintained between internal auditors and other auditors across the sector and wider community and with the QAO.</li> <li>• Greater continuity of Internal Audit staff (not new auditors every year) and those staff get to know the organisation and can better add value to achieving priorities.</li> <li>• Internal Auditors maintain corporate knowledge and a current awareness of changing government policies (the 'hot spots').</li> <li>• Immediate notification of management if/when serious findings are made. Does not have to go through managers and partners in external provider first.</li> <li>• In-house resources have the capacity to operate on 'a short fuse' and divert audit resources when necessary, react to emergent issues or suspected frauds as they arise. Internal Audit is a responsive internal mechanism to support agencies performing in accordance with new government directions – can respond immediately to new priorities, unplanned audits, investigate suspected fraud, provide advice on new policy / system without waiting for an external provider to respond, then quote and then schedule the work</li> <li>• DPC Internal Audit does not just raise audit issues. It works with the agency to resolve the problems and reduce the likelihood of adverse audit issues being raised by the QAO.</li> <li>• Higher level of confidentiality over audit issues. Not disclosed to non-essential external parties.</li> </ul> |                       |

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| Alternative Internal Audit Service Delivery Models | ADVANTAGES   | DISADVANTAGES / RISKS |
|--|--|-----------------------|
|  | <ul style="list-style-type: none"> <li>• An internal function can operate as a training ground for staff – in many agencies former audit staff are operating in senior roles in Finance, Governance and other areas. Staff and management from other areas can work on audit projects to up skill and cross skill others. Capacity to swap and share resources.</li> <li>• Contracts with external providers can include training and skills transfer of internal staff under agreed arrangements.</li> <li>• Less risk of cross-selling in audit reports by external providers.</li> <li>• No risk of conflict of interest in the work being undertaken by an in-house Internal Audit function. External firms may be undertaking work for other organisations which pose a conflict of interest.</li> <li>• Can shop around for the best resources for the particular audit required.</li> <li>• Capacity to allocate work internally or externally based on risk and nature of the work i.e. do not pay high hourly rates for 'tick and flick audits'.</li> <li>• Access to external providers – access to contemporary knowledge and skills – required skills can be accessed when needed under competitive tendering arrangements.</li> </ul> |                       |

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| Alternative Internal Audit Service Delivery Models   | ADVANTAGES   | DISADVANTAGES / RISKS  |
|--|--|--|
| <p><b>3. Co-sourced model - In-house HIA</b></p> <ul style="list-style-type: none"> <li>• Internal HIA plus external resources</li> <li>• No in-house staff</li> <li>• <b>DPC PREFERRED MODEL</b></li> </ul> | <ul style="list-style-type: none"> <li>• Advantages stated above PLUS</li> <li>• Save on cost of in-house Internal Auditors.</li> <li>• Save on audit infrastructure costs e.g. audit software (\$3000 p.a.), accommodation, rent etc. Outsourced auditors will still need office space and access to network.</li> <li>• Internal HIA with qualifications and experience per financial legislation (full-time or part-time as required).</li> <li>• HIA performs contract management role over external resources to ensure value for money provision of internal audit.</li> <li>• HIA continues to perform all other responsibilities of Internal Audit and Risk Services i.e. risk management.</li> <li>• HIA reviews all reports prior to issue to senior management to ensure quality control and appropriateness of recommendations in DPC context.</li> <li>• Flexible blend of in-house and external resources as required to suit the changing role and risk profile of the department.</li> <li>• The right skills and resources can be sourced at the right time in accordance with objectives and risks.</li> </ul> | <ul style="list-style-type: none"> <li>• Maintain cost of in-house HIA.</li> <li>• Acquiring appropriate skill sets / experience / qualifications for HIA role now and in future.</li> </ul> |

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| Alternative Internal Audit Service Delivery Models  | ADVANTAGES   | DISADVANTAGES / RISKS   |
|---|--|---|
| <p><b>4. Out-sourced model - CFO to operate as HIA</b></p> <ul style="list-style-type: none"> <li>• CFO takes on role of HIA</li> <li>• This is essentially a full outsourced model given no Internal Audit expertise or capability internally</li> </ul> | <ul style="list-style-type: none"> <li>• The advantages of co-sourcing outlined IN 2 AND 3 above PLUS</li> <li>• Save on cost of HIA and in-house Internal Auditors (Other resources may need to be brought in to support CFO in performing all of the activities related to the role).</li> <li>• Save on audit infrastructure costs e.g. software (\$3000 p.a.), accommodation, rent etc. Outsourced auditors will still need office space and access to network.</li> </ul> <p>*Additional advantage of outsourcing over co-sourced models above:</p> <ul style="list-style-type: none"> <li>• Avoids independence and familiarity threats of in-house function.</li> </ul> | <ul style="list-style-type: none"> <li>• All of the potential disadvantages of outsourcing described below PLUS:</li> <li>• CFO may not have the required qualifications to operate as the HIA (CPA, CIA etc) under Queensland Financial Legislation, nor the knowledge and focus on strong internal controls / risk management.</li> <li>• Loss of all internal audit expertise in DPC - No strong internal audit presence (a seat at every table) – there is no longer a catalyst for a strong risk and compliance culture within the agency.</li> <li>• Compromises independence and objectivity of internal audit activity - CFO across those functions where fraud most likely – potential for conflict of interest or resources to be diverted to areas where the CFO is short of resources instead of where risks are – audit resources may be diverted to operational tasks.</li> <li>• Potential for stronger focus on financial matters and less focus on achievement of objectives; compliance; information technology risks, efficiency and effectiveness.</li> <li>• An officer in DPC will need to manage the contract with the outsourced provider. Additional resource will be required to support the CFO in this work – this may erode desired savings.</li> <li>• Other work of Internal Audit and Risk Services still needs to be undertaken. Again, resources required.</li> </ul> <p>Risks of outsourcing generally:</p> <ul style="list-style-type: none"> <li>• The department loses control of internal audit and loses</li> </ul> |

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| Alternative Internal Audit Service Delivery Models | ADVANTAGES | DISADVANTAGES / RISKS  |
|--|------------|--|
|  |            | <p>internal focus on business and risk of the agency.</p> <ul style="list-style-type: none"> <li>• The organisation has to pay extra for anything that is above the agreed scope of services and the external provider may not have capacity to provide it.</li> <li>• Lose responsiveness of internal capacity. Cannot jump to address a fraud without resources or provide advice when required urgently.</li> <li>• Potential for outsourced provider to focus on revenue element of service level agreement (finishing jobs quickly and within budget) and lose focus on adding value and improving governance.</li> <li>• Outsourced provider may cross-sell other services through internal audit reports which starts to compromise independence.</li> <li>• Over time, outsourcing providers will command an ever greater premium for their services, since many outsourcing firms buy market share and then increase prices as competition decreases.</li> <li>• Outsourcing does not enable learning and skills development within the agency.</li> <li>• The potential exists for mixed allegiance, in that internal employees have allegiance to the organisation, while the outsourcer's employees are loyal to the outsourcing firm. In other words, the outsourcer does not have to live with the results – DPC does.</li> <li>• Outsourcing providers may utilise inexperienced personnel to perform audits e.g. graduates inexperienced in internal audit and in the agency's business.</li> <li>• Potential for provider to be less than honest – protecting source of income</li> </ul> |

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| Alternative Internal Audit Service Delivery Models  | ADVANTAGES   | DISADVANTAGES / RISKS   |
|---|--|---|
|   |  | <ul style="list-style-type: none"> <li>• If a contract in place less pressure to perform and respond in timely manner e.g. currently, there are chartered accounting firms with too much work who cannot deliver to existing clients (source: HIAs - Qld Govt Departments)</li> <li>• Less hours on the ground compared to in-house.</li> <li>• Critical matters are not identified and addressed e.g. Qld Health fraud – a chartered accounting firm did work in Qld Health to examine related concerns prior to the significant incident– this did not result in preventing the extreme fraud from occurring.</li> </ul>  |
| <p><b>5 Out-sourced model - Another Qld Government Agency</b></p> <ul style="list-style-type: none"> <li>• Outsource full IA function to another Qld Government agency</li> </ul> | <ul style="list-style-type: none"> <li>• The benefit is the financial saving of half of the cost of DPC HIA.</li> <li>• All other costs will be replicated to some degree in host agency and be on-charged to DPC e.g. if there are two person years of work in DPC – two staff will need to be paid for. IT systems will need to be funded etc. There are also a number of activities that will still need to be undertaken in DPC and which will require resources and dollars.</li> </ul> | <ul style="list-style-type: none"> <li>• Similar disadvantages to outsourced model, but potentially without the access to leading edge external resources.</li> <li>• Host agency Internal Audit Unit may not have required resources, skill sets, qualifications to undertake the DPC Internal Audit coverage.</li> <li>• New Agency Internal Audit Unit has no corporate knowledge or relationships within DPC – learning curve.</li> <li>• DPC will need to arrange a service level agreement between DPC and the provider and manage the contract on an ongoing basis. This will pose an additional cost to DPC.</li> <li>• DPC will still need an independent ARMC and will still require resources to support this committee.</li> <li>• DPC will still need to perform risk management, ARMC secretariat and other related tasks.</li> <li>• DPC priorities compete with priorities of the host agency of the new IA team.</li> <li>• DPC may cross-subsidise higher risk activity in the other</li> </ul> |

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| Alternative Internal Audit Service Delivery Models | ADVANTAGES | DISADVANTAGES / RISKS  |
|--|------------|--|
|  |            | <p>agency.</p> <ul style="list-style-type: none"> <li>• Historically government agencies fail to adequately manage service level agreements with other government agencies e.g. Shared Services (source QAO Reports over last 3 financial years).</li> <li>• DPC loses control of internal audit and loses internal focus on the business and risk profile of the agency.</li> <li>• Quality of audits are subject to internal management decisions within the new IA host agency regarding allocation and timing of resources. DPC may get junior, inexperienced staff but still pay for senior, experienced staff under the SLA.</li> <li>• Resources focused on work of DPC may be compromised in an effort to meet the needs of the host agency Director-General.</li> <li>• Potential for host to focus on revenue element of service level agreement (finishing jobs quickly and within budget) and lose focus on adding value and improving governance in DPC.</li> </ul> |

Preferred Model for DPC

The advantages and disadvantages above have been analysed to determine the preferred approach for the provision of an efficient, effective and economical Internal Audit function for DPC, and ultimately, for other Queensland Government departments. The view has also been informed by current public research and reports published by the Queensland Audit Office and the Australian National Audit Office.

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The preferred model for Queensland Government agencies generally is Option 2 - A flexible co-sourced model - In-house Head of Internal Audit, in-house internal Auditors plus external provider resources.

The key advantages of this model is that it provides the 'best of both worlds' or the 'best of breed' – a stable internal function within the agency supporting a culture of strong governance, risk management and internal control, supplemented, as required by access to leading edge skills from a range of external providers. It is also a lower cost option overall, there is more continuity in the internal resources relative to the revolving door of external provider staff and less risk that urgent work cannot be undertaken because the external providers are busy elsewhere servicing other clients.

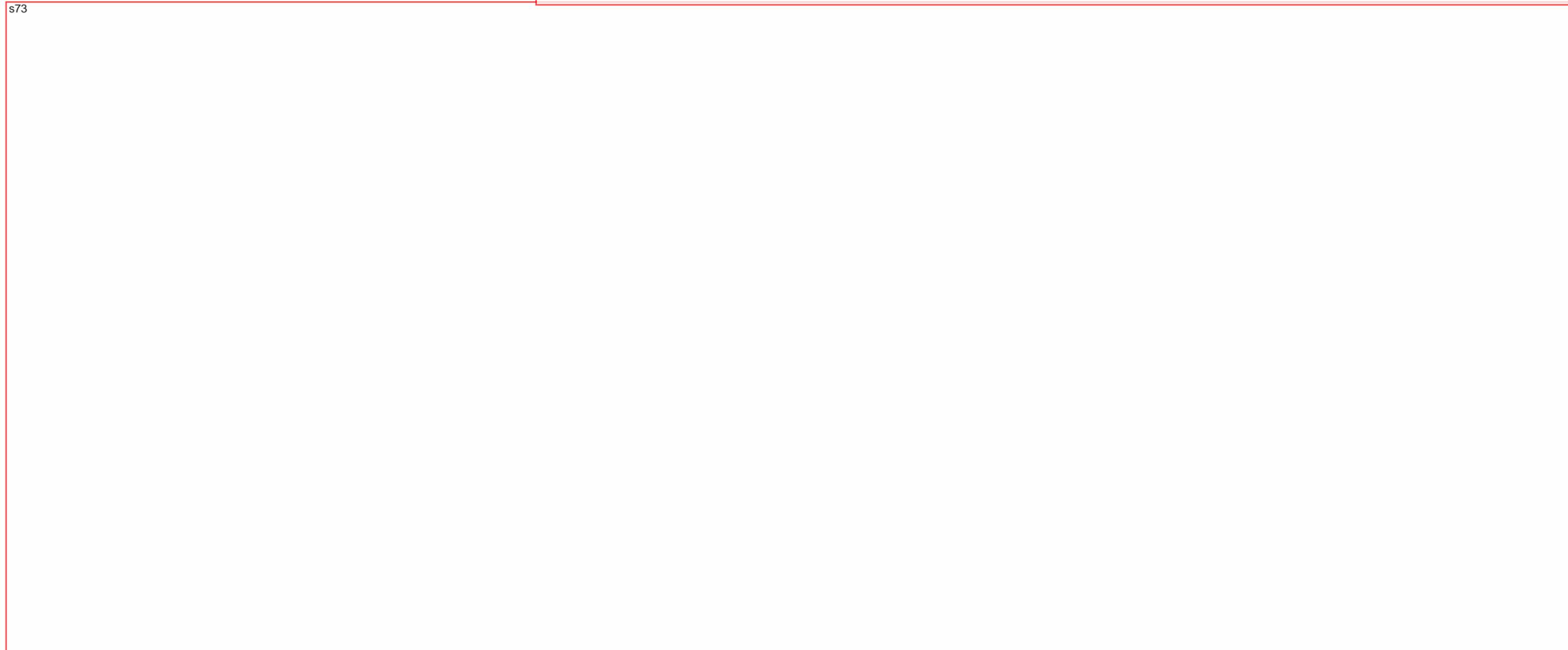
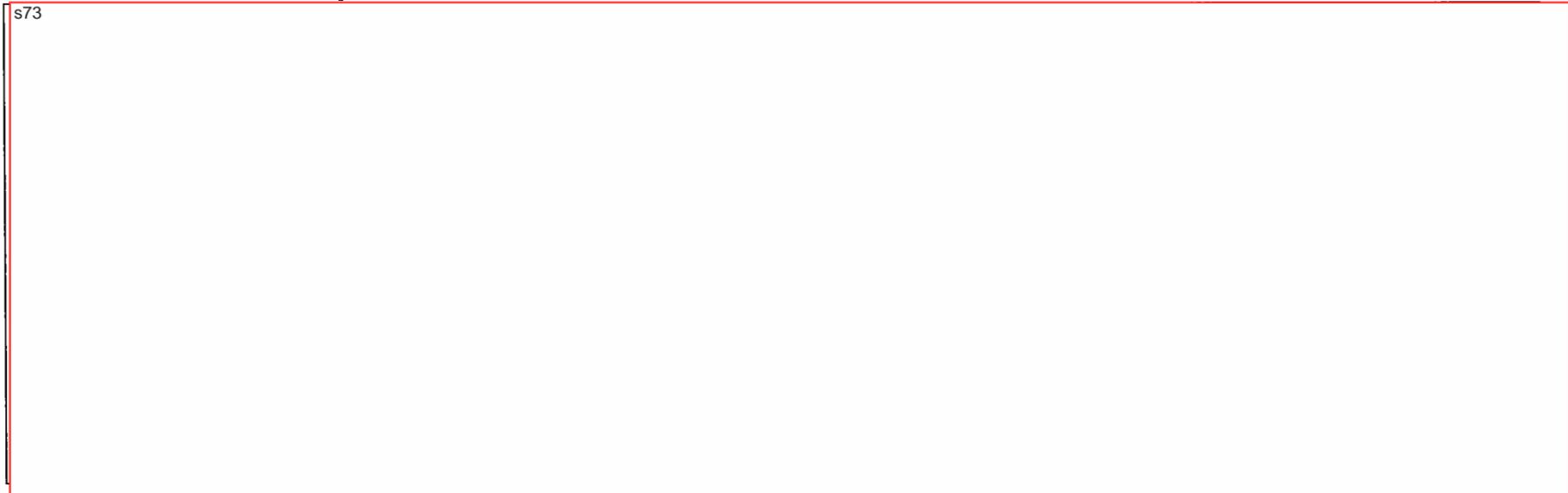
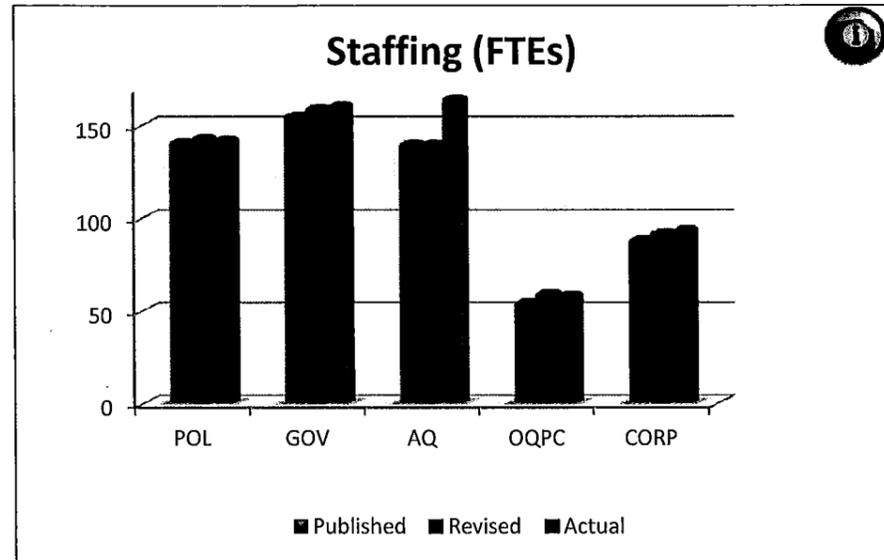
**For DPC, the preferred model is Option 3 – Co-sourced model with in-house Head of Internal Audit. DPC is a key central agency providing critical services and influencing all agencies, however, it is not large in terms of staff numbers and operating budget.**

Page 129 redacted for the following reason:

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Contrary to Public Interest



## Departmental Dashboard Report to end September 2011



 Indicates more information provided in accompanying brief.

**DIRECTOR-GENERAL'S BRIEFING NOTE**

Governance

Tracking Folder No. TF/12/2679  
Document No. DOC/12/21753

To: Director-General  
Subject: Quarterly Departmental Dashboard Report –  
end December 2011

Approved / Not Approved / Noted  
Addressee .....  
Date ...../...../.....

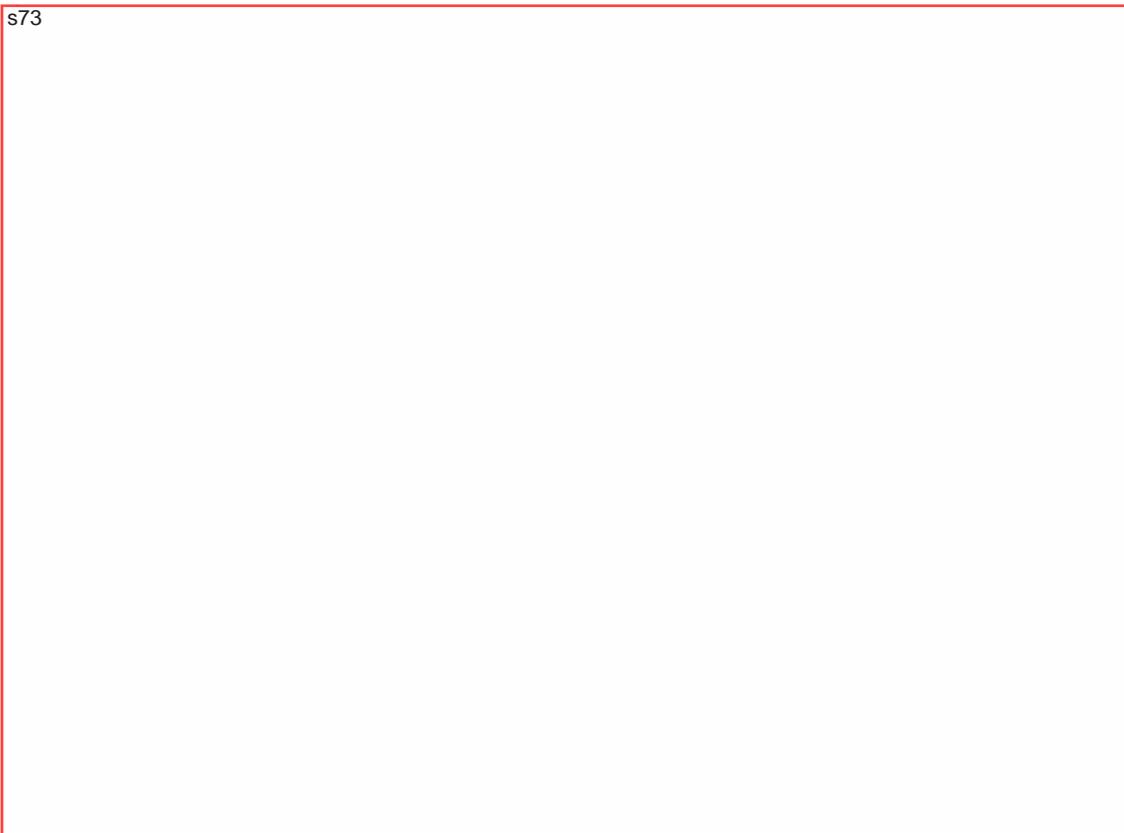
• **RECOMMENDATION**

It is recommended that you endorse the December quarter Departmental Dashboard Report (Attachment 1).

• **KEY ISSUES**

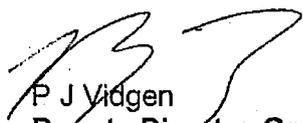
- Actual FTEs for the December quarter were 599.45, which is 12.46 less than the 2011-12 revised budgeted figure of 611.91. The decrease from last quarter is primarily due to the voluntary separation program and a reduction in the number of casuals hired by Arts Queensland during the quarter.

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• **CONSULTATION**

- Business Services, Corporate Information, Information and Communication Technology, Arts Queensland

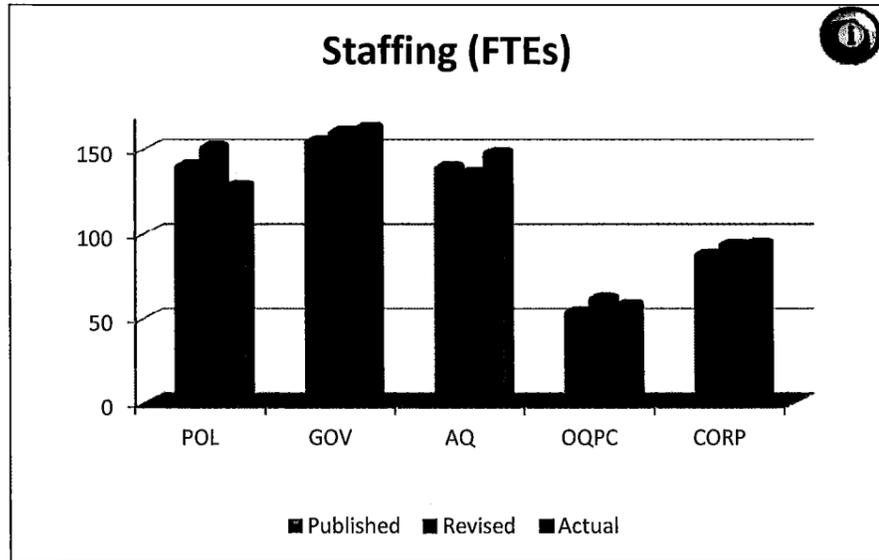
  
P J Vidgen  
Deputy Director-General  
Governance

17.2.12.

Comments

|  |   |
|--|---|
| Action Officer: Simon Carl<br>Area: Corporate Planning & Reporting<br>Telephone: 45488 | Approvals by Director / ED / DDG<br>documented in notes in TRIM |
|--|---|

## Departmental Dashboard Report to end December 2011



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 Indicates more information provided in accompanying brief.

**DIRECTOR-GENERAL'S BRIEFING NOTE**

Governance

Tracking Folder No. TF/12/11914

Document No. DOC/12/96577

**To: Director-General**  
**Date: 19 June 2012**  
**Subject: Quarterly Departmental Dashboard and Service Delivery Statement Performance Report as at end March 2012**

Approved / Not Approved / Noted

Addressee .....

Date .....

**• RECOMMENDATION**

It is recommended that you:

- note the Departmental Dashboard Report (Attachn
- endorse the provision of the Service Delivery State Report to the Performance and Delivery Office (PDO)

*Noted by DS*  
*& please can future reports come to Corp Governance meeting?*  
*many thanks*  
*See*

**• KEY ISSUES**

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- Actual FTEs at the end of the March quarter were 443.21, which is 8.25 FTEs less than the 2011-12 revised budgeted figure of 451.46 FTEs.

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**• CONSULTATION**

- Business Services, Cabinet Services, Information Services, State Affairs, State Services, PDO, Office of the Queensland Parliamentary Counsel.

**• BACKGROUND**

- On endorsement, a copy of this report will be provided to the Deputy Directors-General Policy and Governance and the Parliamentary Counsel.

Comments

Pat Vidgen  
Deputy Director-General  
Governance

Action Officer: Simon Carl  
Area: CPR  
Telephone: x45488

Approvals by Director / ED / DDG  
documented in notes in TRIM

## Departmental Dashboard Report for the quarter ending March 2012

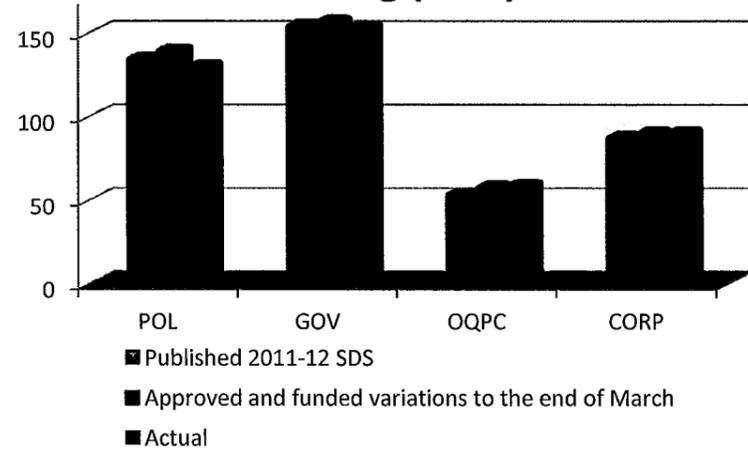


More information is available in  
accompanying brief



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### Staffing (FTEs)



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**Department of the Premier and Cabinet  
Corporate Governance Group**

Thursday, 23 August 2012  
15th Floor, Director-General's Large Conference Room

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**Agenda Item: X**

**Subject: Departmental Dashboard as at end June 2012**

**Responsible Area: Corporate Planning & Reporting**

**Deadline for consideration (if any):**

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- Actual FTEs at the end of the June quarter were 413, 39.46 fewer than the 2011-12 revised budgeted figure. The actual is well under the end of March quarter figure of 443.21.

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It is recommended that you:

- **note** the Departmental Dashboard Report (**Attachment 1**).
- **endorse** the provision of the Service Delivery Statement (SDS) Performance Report to the Performance Unit.

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**Considered by CGG:**

**Recommendation\Decision:**

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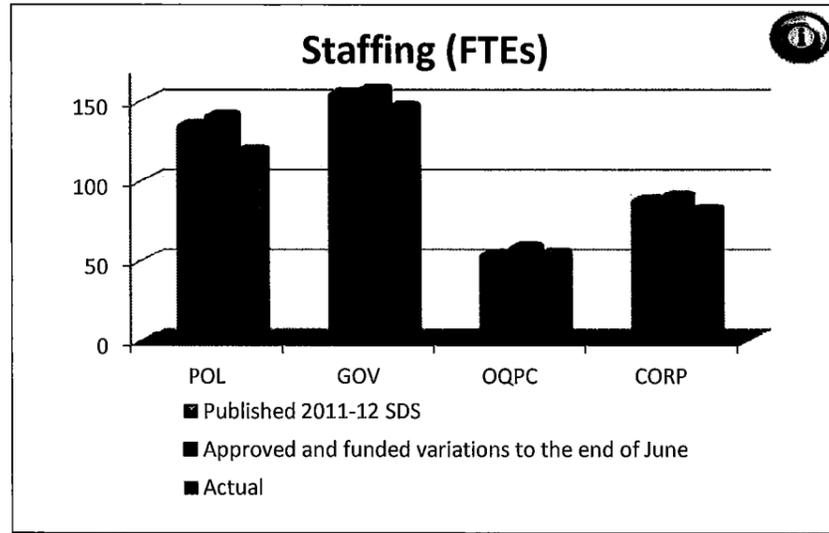


More information is available in accompanying agenda item

# Departmental Dashboard Report for the quarter ending June 2012

Attachment 1

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19 July 2012

CTPI

CTPI

I am writing to advise you that the Commission Chief Executive of the Public Service Commission (PSC) has issued a new directive relating to employees requiring placement, which came into effect on 2 July 2012.

This directive replaces Directive 12/09: *Employment arrangements following workplace change*.

As you were declared an employee requiring placement under Directive 12/09 in May 2010, you are now covered by this new Directive, No 06 of 2012.

Directive 06/12 provides an altered process for managing employees who require placement (ERPs). The directive provides ERPs with the opportunity to accept a voluntary redundancy package. If an ERP chooses not to accept the voluntary redundancy, they will be registered in a central placement pool, where efforts will be made to identify transfer opportunities for them, across the public sector.

The information below provides an overview of the choices an ERP has. For further information, please refer to *Directive 06/12: Employees requiring placement* and *Directive 04/12: Early retirement, redundancy and retrenchment*. Copies of these directives are attached, and may be accessed through the Public Service Commission website at [www.psc.qld.gov.au](http://www.psc.qld.gov.au).

#### Offer

In accordance with *Directive 06/12: Employees Requiring Placement* (attached), I am offering you the opportunity to choose between two options:

1. Accept a voluntary redundancy; or
2. Pursue transfer opportunities.

You need to make and advise of your decision within 14 days. If I do not receive your decision in this timeframe, I will consider that you have chosen to pursue transfer opportunities.

## Voluntary Redundancy

The offer of a voluntary redundancy is made in accordance with *Directive 04/12: Early retirement, redundancy and retrenchment*. The redundancy package is made up of:

- your accrued recreation leave;
- your accrued long service leave (provided you have had at least one year of service)
- a severance payment (of 2 weeks' salary per year of service – to a maximum of 52 weeks); and
- an incentive payment of 12 weeks' salary.

An estimate of the redundancy package is attached for your information.

In making this offer, I confirm that it is a bona fide redundancy (refer to section 3.2 of Directive 04/12).

Should you elect to accept the voluntary redundancy, your employment with the department will cease on 24 August 2012.

Please note: if you decline this offer of a voluntary redundancy, you will not be offered a voluntary redundancy again.

## Pursuing Transfer Options

If you chose to pursue transfer opportunities, the department will work with you to identify an alternative suitable permanent position at your substantive classification level. You may also nominate to be considered for redeployment to a lower classification level.

To assist you in achieving a new placement, you will be assigned a case manager. Your case manager will work co-operatively with you to try and secure a new placement, including completing a registration form detailing your skills and experience to facilitate vacancy matching. Your case manager will also obtain a referee statement from your current supervisor or manager about your performance and conduct. You will be provided with a copy of this referee statement; if it contains any comments you do not agree with you will be given an opportunity to respond.

In accordance with the process outlined in Directive 06/12, you will be registered in the central placement pool, where your skills, experience and resume will be reviewed to assess your potential suitability for vacancies. If a potential vacancy match is identified, you will be requested to participate in a suitability assessment process by the relevant agency.

If a match is identified and you are assessed as suitable for the role, you will be offered a transfer. If you choose to accept transfer to the role, a start date in the new role will be negotiated. This will usually be no longer than two weeks, but an alternative timeframe could be negotiated if appropriate in the circumstances.

If you do not wish to accept the transfer, you will have the opportunity to be offered one additional vacancy. If you refuse a second transfer offer, you will need to demonstrate

reasonable grounds why you are refusing. If you refuse and cannot demonstrate reasonable grounds for doing so, your employment may be terminated in accordance with s134 of the *Public Service Act 2008*. If this situation happens, you will have a right to lodge an appeal to the Appeals Officer; neither the transfer nor termination of your employment will occur prior to the completion of the appeal period, or if you lodge an appeal, the appeal decision being made. Please note, that if your employment is terminated on this basis, you will be entitled to notice and payout of accrued leave in accordance with the relevant leave directives, but you will not be entitled to a severance or incentive payment.

If you are assessed as unsuitable, you will be provided with a copy of the report outlining the reasons for the assessment.

It is important that you fully participate in efforts to secure you an alternative substantive role, including participating in suitability assessment processes and applying for suitable vacancies during this period, particularly permanent vacancies. If you do not participate and cannot provide reasonable grounds for not participating, a discipline process may be commenced.

The Department of the Premier and Cabinet will work with you to try and secure a new substantive role for you. If, however, you have not been placed into a new role four months after your registration as an ERP, a formal review will occur to determine whether or not it is appropriate to continue these transfer efforts. A review may be initiated at an earlier time if reasonable placement efforts have been undertaken and/or a transfer opportunity for you is unlikely to occur as a result of your specialised skill or location.

If, as a result of the review, a decision were to be made that that it is appropriate to continue transfer efforts, you will remain an employee requiring placement and a further review period will be set.

If, however, a decision were to be made that it is not appropriate to continue the transfer efforts, a retrenchment process will be commenced in accordance with *Directive 04/12: Early retirement, redundancy and retrenchment*. As part of this process and before a final decision is made, you will be provided with an opportunity to explain why you think retrenchment is unreasonable in the circumstances. In the event you are retrenched, you will be entitled to a severance package in accordance with *Directive 04/12*. This package does not include the 12 week incentive payments as outlined in the voluntary redundancy offer. A retrenchment package includes your accrued leave and a severance payment (i.e. 2 weeks' salary per year of service).

### **Salary Maintenance**

*Directive 06/12* sets out the salary maintenance provisions that apply if you elect to pursue transfer and, where applicable, redeployment.

### Advising of your decision

You have 14 days in which to advise of your decision to accept a Voluntary Redundancy or pursue transfer options. Please complete the attached form and return it to:

Debbie Paterson  
Director Human Resource Services  
Department of the Premier and Cabinet  
PO Box 15185  
City East QLD 4002

I appreciate that this is a significant decision and I would like to remind you of your ability to access the department's employee assistance provider, Davidson Trahaire Corpsych on 1300 360 364. You may also wish to obtain financial advice to assist you in making this decision.

Yours sincerely,

Pat Vidgen  
**Deputy Director-General  
Governance**

Encl.

- *Directive 06/12: Employees Requiring Placement*
- *Directive 04/12: Early retirement, redundancy and retrenchment.*

## Employee Requiring Placement: Template Decision Form

CTPI

I have been provided with a copy of:

- *Directive 06/12: Employees Requiring Placement*
- *Directive 04/12: Early retirement, redundancy and retrenchment.*

Having had the opportunity to consider the information in these directives and the advice provided in writing in a letter from Pat Vidgen dated 19 July 2012:

I wish to accept the voluntary redundancy offer and cease my employment with the Department of the Premier and Cabinet on 24 August 2012. I understand that in the event I am re-employed within any Queensland Public Service entity within the severance period, I will be required to repay a proportion of the redundancy package, in accordance with the directive relating to early retirement, redundancy and retrenchment.

**OR**

I wish to decline the voluntary redundancy offer and pursue transfer opportunities. I understand that I must work co-operatively with my agency in seeking to secure a new placement, including applying for suitable vacancies. I also understand that:

- if I do not participate in suitability assessment processes, I may be liable to a disciplinary process; and/or
- if I refuse a transfer direction on two occasions and cannot demonstrate reasonable grounds for refusal, my employment may be terminated in accordance with s134 of the *Public Service Act 2008*; and/or
- a formal review will occur four months from the date of my registration as an employee requiring placement (unless initiated earlier), to determine whether it is appropriate to continue the transfer efforts. If it is determined that further efforts are not appropriate, a retrenchment process will be commenced.

Employee signature:

Date:

Return to:

Debbie Paterson  
Director Human Resource Services  
Department of the Premier and Cabinet  
PO Box 15185  
City East QLD 4002

10 August 2012

CTPI

Dear CTPI

I refer to your decision on 8 June 2010 to relinquish your substantive role in Economic Policy to take up an external placement with CTPI

Since completing this placement you have been nominally held against the Economic Policy Unit, however were seconded to the CTPI to provide you with meaningful duties. We have now determined that there is no ongoing requirement for five (5) AO7 Senior Policy Officers in the Economic Policy Unit; four (4) are considered sufficient to meet service requirements at this time. As such your role within that unit is considered redundant. Unfortunately, as we have been unable to identify an alternative role to place you in, you have been designated as an employee requiring placement (ERP).

There are a number of options open to you. Directive 06/12 provides the process for managing employees in your situation. The directive provides you with the opportunity to accept a voluntary redundancy package. If you choose not to accept the voluntary redundancy, you will be registered in a central placement pool, where efforts will be made to identify transfer opportunities for you, across the public sector.

The information below provides an overview of the choices open to you. For further information, please refer to *Directive 06/12: Employees requiring placement* and *Directive 04/12: Early retirement, redundancy and retrenchment*. Copies of these directives are attached, and may be accessed through the Public Service Commission website at [www.psc.qld.gov.au](http://www.psc.qld.gov.au).

#### Offer

In accordance with *Directive 06/12: Employees Requiring Placement* (attached), I am offering you the opportunity to choose between two options:

1. Accept a voluntary redundancy; or
2. Pursue transfer opportunities.

You need to make and advise of your decision within 14 days. If I do not receive your decision in this timeframe, I will consider that you have chosen to pursue transfer opportunities.

### **Voluntary Redundancy**

The offer of a voluntary redundancy is made in accordance with *Directive 04/12: Early retirement, redundancy and retrenchment*. The redundancy package is made up of:

- your accrued recreation leave;
- your accrued long service leave (provided you have had at least one year of service)
- a severance payment (of 2 weeks' salary per year of service – to a maximum of 52 weeks); and
- an incentive payment of 12 weeks' salary.

An estimate of the redundancy package is attached for your information.

In making this offer, I confirm that it is a bona fide redundancy (refer to section 3.2 of Directive 04/12).

Should you elect to accept the voluntary redundancy, your employment with the department will cease on 7 September 2012.

Please note: if you decline this offer of a voluntary redundancy, you will not be offered a voluntary redundancy again.

### **Pursuing Transfer Options**

If you chose to pursue transfer opportunities, the department will work with you to identify an alternative suitable permanent position at your substantive classification level. You may also nominate to be considered for redeployment to a lower classification level.

To assist you in achieving a new placement, you will be assigned a case manager. Your case manager will work co-operatively with you to try and secure a new placement, including completing a registration form detailing your skills and experience to facilitate vacancy matching. Your case manager will also obtain a referee statement from your current supervisor or manager about your performance and conduct. You will be provided with a copy of this referee statement; if it contains any comments you do not agree with you will be given an opportunity to respond.

In accordance with the process outlined in Directive 06/12, you will be registered in the central placement pool, where your skills, experience and resume will be reviewed to assess your potential suitability for vacancies. If a potential vacancy match is identified, you will be requested to participate in a suitability assessment process by the relevant agency.

If a match is identified and you are assessed as suitable for the role, you will be offered a transfer. If you choose to accept transfer to the role, a start date in the new role will be negotiated. This will usually be no longer than two weeks, but an alternative timeframe could be negotiated if appropriate in the circumstances.

If you do not wish to accept a transfer, you will have the opportunity to be offered one additional vacancy. If you refuse a second transfer offer, you will need to demonstrate reasonable grounds why you are refusing. If you refuse and cannot demonstrate reasonable grounds for doing so, your employment may be terminated in accordance with s134 of the *Public Service Act 2008*. If this situation happens, you will have a right to lodge an appeal to the Appeals Officer; neither the transfer nor termination of your employment will occur prior to the completion of the appeal period, or if you lodge an appeal, the appeal decision being made. Please note, that if your employment is terminated on this basis, you will be entitled to notice and payout of accrued leave in accordance with the relevant leave directives, but you will not be entitled to a severance or incentive payment.

If you are assessed as unsuitable, you will be provided with a copy of the report outlining the reasons for the assessment.

It is important that you fully participate in efforts to secure you an alternative substantive role, including participating in suitability assessment processes and applying for suitable vacancies during this period, particularly permanent vacancies. If you do not participate and cannot provide reasonable grounds for not participating, a discipline process may be commenced.

The Department of the Premier and Cabinet (DPC) will work with you to try and secure a new substantive role for you, however, if you have not been placed into a new role four months after your registration as an ERP, a formal review will occur to determine whether or not it is appropriate to continue these transfer efforts. A review may be initiated at an earlier time if reasonable placement efforts have been undertaken.

If, as a result of the review, a decision were to be made that that it is appropriate to continue transfer efforts, you will remain an employee requiring placement and a further review period will be set.

If, however, a decision were to be made that it is not appropriate to continue the transfer efforts, a retrenchment process will be commenced in accordance with *Directive 04/12: Early retirement, redundancy and retrenchment*. As part of this process and before a final decision is made, you will be provided with an opportunity to explain why you think retrenchment is unreasonable in the circumstances. In the event you are retrenched, you will be entitled to a severance package in accordance with Directive 04/12. This package does not include the 12 week incentive payments as outlined in the voluntary redundancy offer. A retrenchment package includes your accrued leave and a severance payment (i.e. 2 weeks' salary per year of service).

## Salary Maintenance

Directive 06/12 sets out the salary maintenance provisions that apply if you elect to pursue transfer and, where applicable, redeployment.

## Advising of your decision

You have 14 days in which to advise of your decision to accept a Voluntary Redundancy or pursue transfer options. Please complete the attached form and return it to:

Debbie Paterson  
Director, Human Resource Services  
Department of the Premier and Cabinet  
PO Box 15185  
City East QLD 4002

I appreciate that this is a significant decision and I would like to remind you of your ability to access the department's employee assistance provider, Davidson Trahaire Corpsych on 1300 360 364. You may also wish to obtain financial advice to assist you in making this decision.

Yours sincerely,

Craig Evans  
Deputy Director-General  
Policy Division

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Having had the opportunity to consider the information in these directives and the advice provided in writing in a letter from Craig Evans dated 10 August 2012.

I wish to accept the voluntary redundancy offer and cease my employment with the Department of the Premier and Cabinet on 7 September 2012. I understand that in the event I am re-employed within any Queensland Public Service entity within the severance period, I will be required to repay a proportion of the redundancy package, in accordance with the directive relating to early retirement, redundancy and retrenchment.

**OR**

I wish to decline the voluntary redundancy offer and pursue transfer opportunities. I understand that I must work co-operatively with my agency in seeking to secure a new placement, including applying for suitable vacancies. I also understand that:

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- if I refuse a transfer direction on two occasions and cannot demonstrate reasonable grounds for refusal, my employment may be terminated in accordance with s134 of the *Public Service Act 2008*; and/or
- a formal review will occur four months from the date of my registration as an employee requiring placement (unless initiated earlier), to determine whether it is appropriate to continue the transfer efforts. If it is determined that further efforts are not appropriate, a retrenchment process will be commenced.

Employee signature:

Date:

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Debbie Paterson  
Director, Human Resource Services  
Department of the Premier and Cabinet  
PO Box 15185  
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