E. Internal controls maturity models

The Queensland Audit Office (QAO) has developed new assessment tools for internal controls.

These tools aim to take internal control assessments beyond an effective or ineffective result, to identify where an entity has opportunities to improve the efficiency and/or effectiveness of its controls. Entities should consider these opportunities in light of the investment required and the benefit this will provide.

The assessment tools are scalable to an entity's size and complexity, and are principle-based, so they respond to factors that influence an entity's practices.

We use information from these assessments to share learnings and better practice across the public sector.

Annual assessment and deep dives

We prepared an annual assessment tool for understanding where entities sit on a maturity scale for effective internal controls, relevant to financial reporting and compliance. The tool focuses on common controls across government entities.

The tool includes 41 questions across 11 components and should allow entities to highlight areas for targeted improvement. We will use this tool to identify components where we may consider performing a deep dive assessment.

We have developed deep dive assessment tools for:

- change management (specific to machinery of government changes)
- grants management
- procure-to-pay.

We will continue to develop deep dive assessment tools for areas that we identify as higher risk for entities.

We have used both the annual internal control assessment tool and the change management deep dive assessment tool, tailored for the machinery of government changes, in the preparation of this report. A copy of these models is available on our website at www.qao.qld.gov.au/reports-resources/better-practice.

Each assessment tool uses 4 levels of maturity, consistent with our financial statement preparation maturity model. These are defined as:

- developing – an entity does not have this control, or it is not operating effectively, so the identified risk is not managed
- established – an entity shows basic competency in this area, so legislative requirements are met or the identified risk is managed
- integrated – an entity is developed in this area or regularly demonstrates this, so that controls work together to respond to the identified risk; however, the efficiency or effectiveness of controls could still be improved
- optimised – the entity consistently demonstrates this control and is a leader of best practice in this area.

Entity assessments

The assessment tools are entity driven. This means each entity sets its own target of maturity between established and optimised, and assesses its practices to determine if it has met them.

An entity should establish an expectation that is commensurate with its business. As entities implement internal controls to treat risk – the risk of not achieving their objectives, fraud or error in financial reporting, or non-compliance with legislative requirements – the desired positioning should reflect the level of risk for their entity. The higher the risk, the greater the investment in internal controls is likely to be, to reduce risk to an acceptable level.

The desired positioning of maturity will also differ depending on the size, complexity, age, structure, and available resources of each entity. Entities may adjust their expectations during a period of change, for example, a machinery of government change, internal restructure, or changes to program delivery or major systems.

QAO does not expect that all entities will sit in the integrated and optimised categories, nor always aim to be in those categories. Entities should always consider the cost of moving categories in the context of the benefits this will provide.

For some, achieving a higher maturity may not be the best investment, if those internal controls are not related to the department's core service delivery. For example, policy departments do not require a large asset base to deliver their services, so they would not see a significant benefit in investing in asset management. This is very different to those delivering health, transport, and education services, which require well-maintained assets and need their internal controls for asset management to be efficient and effective.