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Dear Accounting Officer

GOVERNMENT INTERNAL AUDIT STANDARDS

Purpose of this DAO letter

This letter promulgates the new “Definition of Internal Audit” and “Government Internal Audit Standards”. The Definition and the Standards, which are addressed to both Accounting Officers and Heads of Internal Audit replace those contained in the 1996 edition of the Government Internal Audit Manual. The relevant references in Government Accounting have been updated in a revised version of Chapter 4. This chapter is expected to be available on the Treasury’s GSI site soon and a fully updated version of Government Accounting taking account of the introduction of resource accounting and budgeting is expected to be freely available on the internet at the end of this year.

Timing

2. The Definition and Standards are effective from 1st April 2002.
3. The revision of the Definition of Internal Audit and the Government Internal Audit Standards is the first stage in a complete revision of the Government Internal Audit Manual, which will be complete in all major respects by April 2002. The complete Government Internal Audit Manual will comprise:
 - these Standards
 - a Training and Development Handbook
 - good practice guidance
 - position statements on the role of Internal Audit in various issues (eg – risk management, management of fraud).



INVESTOR IN PEOPLE

Background

5. The new Definition and Standards have been developed through a lengthy consultation with Heads of Internal Audit, with audit practitioners, and with professional bodies such as the Institute of Internal Auditors. They reflect current best practice in the profession, and are compatible with the Standards of the Institute of Internal Auditors

Key issues in the new Standards

6. The new Definition and Standards are designed to refocus Internal Audit in relation to corporate governance and risk management as well as promoting added value from the Internal Audit service through a proactive internal consultancy role. The key points to note in the new Standards are:

- Clarification of Internal Audit's reporting line to the Accounting Officer (particularly Standard 2.2) and of the role of the Internal Audit service in supporting the Accounting Officer in the processes leading to the preparation of the annual Statement of Internal Control (see also para 10 of DAO(GEN)13/00)
 - The Accounting Officer being the client for Internal Audit's annual assurance (particularly Standard 9.3)
 - The Accounting Officer being the client for external quality assurance reports on the internal audit function (Standard 10.4.2)
 - Internal Audit's scope focused on the whole system of risk management, control and governance put in place to achieve the objectives of the organisation (definition and standard 1)
- Clarification of the Accounting Officer's responsibilities for Internal Audit
 - Responsibility for acceptance of any limitation on the scope of internal audit activity either in its remit or resourcing (Standards 1.2.3 and 6.1.10)
- Requirement for the Head of Internal Audit to hold the Government Internal Audit Certificate (Standard 5.2.2)
- Requirement for the internal audit strategy to be informed by a management risk assessment rather than an "Audit Needs Assessment" [enhancing the value of Internal Audit in relation to the governance of the organisation] (particularly Standard 6.1.3)
- Introduction of the concepts of "Audit Strategy" and "Periodic Audit Plan" rather than "Long Term Plan" and "Annual Plan" to reflect the way in which Internal Audit needs to be responsive to the changing business environment (Standard 6)
- The introduction of a "Code of Ethics" for Internal Auditors

- A requirement for any long term non-compliance (whether unavoidable or deliberate) to be documented and discussed with Treasury

Publication of the new Government Internal Audit Manual

7. The production of a “glossy” hard copy version of these Standards is now in hand, and they will also be available on the Treasury website (both GSI and public versions) as soon as possible. All elements of the new Government Internal Audit Manual will be made available to users free of charge.

Next steps

8. Work is now underway on the Training and Development Handbook and on the good practice sections of the manual. In respect of the good practice sections priority is being given to the elements of :

- A Quality Assurance package (first draft completed – this will help Internal Audit units to identify changes which need to be made to gain compliance with the new Standards)
- Audit Strategy (to support the revision of the strategic approach of Internal Audit units as they work towards implementation of the new Standards)
- The consultancy role of Internal Audit (being aware that many Internal Audit units have already taken up this role the development of relevant guidance is important in ensuring that the consultancy service is delivered in a manner compatible with the new Standards)

9. Meantime an “Implementation Questionnaire” has been prepared to assist with the identification of actions to be taken to ensure compliance with the new Standards. A copy of this is also enclosed.

Enquiries

10. Enquiries should be addressed to Gordon Adam in the Audit Policy and Advice Team here in Treasury (Room 505, Allington Towers, 19 Allington Street, London SW1E 5EB, telephone 020 7270 1683, e-mail gordon.adam@hm-treasury.gsi.gov.uk)

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