

**INTERNAL AUDIT
QUALITY ASSESSMENT
FRAMEWORK**

A Tool for Departments

Version 1
December 2006

CONTENTS

| | Page |
|--|-------------|
| Overview and User Guide | 3 |
| Internal Audit Quality Assessment Framework Tool | 7 |
| 1. Governance | 8 |
| 2. Audit Strategy | 14 |
| 3. People, Knowledge and Skills | 16 |
| 4. Audit Processes and Resources | 18 |
| 5. Other Assurance Providers | 20 |
| 6. Outputs – Audit Products | 22 |
| 7. Outcomes | 24 |
| 8. Overall Summary of Progress | 26 |
| 9. Overall Action Plan | 27 |
| 10. Annex A - Detailed Questions | |

OVERVIEW

and

USER GUIDE TO THE INTERNAL AUDIT QUALITY ASSESSMENT FRAMEWORK

Introduction

The Internal Audit Quality Assessment Framework (IAQAF) is a tool for evaluating the quality of the internal audit service in an organisation. It is intended to:

- Facilitate identification of actions for continuous improvement
- Facilitate evaluation of progress with improvement plans
- Provide an approach to both internal and external Quality Assurance reviews which is not “tick box” and which goes beyond compliance with the Standards alone

The approach is broadly inspired by the Risk Management Assessment Framework (RMAF). As with the RMAF, the IAQAF has been adapted from the EFQM model.

The Broad Approach

The Framework has seven high level elements. These elements encompass enablers for effective internal audit, the capability of the internal audit function to deliver, and the results of internal audit work. Although reference with the Government Internal Audit Standards is not explicit, compliance should be considered as appropriate in each element, and relevant references to the Standards are indicated in relation to each element.

At the most summarised level there are **seven questions** to address:

Enablers

1.
 - a) Are there robust governance arrangements that:
 - promote effective internal audit?
 - promote an effective relationship between the Accounting Officer/Board/Audit Committee and internal audit, with clearly understood roles and responsibilities?
 - promote a culture of good business ethics and governance?
 - b) Does the Audit Committee actively promote risk, control and governance issues and the use of internal audit in contributing to them?
 - c) Does the internal audit function have sufficient independence to fulfil its professional remit?

Capabilities

2. Is there an internal audit strategy that clearly states the objectives of the internal audit function and how they will be delivered?
3. Does the internal audit function appropriately plan for, acquire, deploy and develop an appropriate and sufficient range of skills and knowledge?

- | |
|--|
| <ol style="list-style-type: none"> 4. Do the internal audit processes and resources promote an effective and efficient internal audit function? 5. Does the internal audit function effectively co-ordinate with appropriate assurance providers to reduce the burden of audit and ensure the Board receives overall assurance? |
| <p>Results</p> <ol style="list-style-type: none"> 6. Are audit products effective in communicating audit opinions and advice to various levels of the organisation? 7. <ol style="list-style-type: none"> a) Does the Accounting Officer/Board believe it is sufficiently assured and supported in decision-making by the work of internal audit? b) Does internal audit advice lead to change that impacts on management of the organisation's risk priorities? |

Results

6. Are audit products effective in communicating audit opinions and advice to various levels of the organisation?
7.
 - a) Does the Accounting Officer/Board believe it is sufficiently assured and supported in decision-making by the work of internal audit?
 - b) Does internal audit advice lead to change that impacts on management of the organisation's risk priorities?

For each element there is a set of questions (Annex A) to help the reviewer collect evidence. The questions are indicative of the range of issues and extent of evidence needed to decide what level is currently being achieved. They are intended to provoke an active and critical consideration of the quality of the internal audit function. The relevance of individual questions may vary from organisation to organisation. The intention is that the question sets are “background support” for the reviewer to help with planning work that needs to be done to collect evidence. They are however, not intended to be, for example, a model framework for interviews.

Selection of reviewers

The selection of a reviewer will depend on the nature of the review. For internal reviews the reviewer is likely to be selected from within the staff of the internal audit service. For an external review the reviewer will need to have demonstrable independence from the Internal Audit service being reviewed. The Framework is premised on the reviewer being able to apply considerable experience of internal audit to their consideration of the evidence being gathered, so in all cases it is important that the reviewer is a professionally qualified Internal Auditor with considerable experience.

Quality of evidence

It is very important of course that reviewers do not try to collect evidence for the marking that they want to achieve; rather they should collect the evidence and make an evaluation of what that evidence indicates. Using the Framework is no different to conducting an audit – the evidence should be such that another competent reviewer considering the same evidence would come to the same conclusion. Indeed the expectation is that a reviewer will use an audit assignment approach to conducting the review – planning their work, identifying stakeholders who should be consulted as part of the review, identifying the most appropriate means of ascertaining how the audit service is delivered, using a combination of interviews and reviews of documentation and then using samples of actual work to test and refine conclusions. Space is provided to record details of evidence provided and any actions required.

Evaluation

The evaluation scale provides a means of assessing and monitoring performance, identifying and setting targets for improvement, and in judging progress towards those targets. It will also be useful in establishing a basis for planning and priority setting for future work plans and for peer review and/or benchmarking, both within and between organisations.

A purpose of the framework is to facilitate continuous improvement and the evaluation scales are simply a record of the evaluation made at a particular point in time. Over time when the framework is reapplied, comparison with previous evaluations will show trends in relation to the seven aspects of the framework.

The evaluation scales provided are not an end in their own right, nor is there an expectation that all internal audit services should be aiming for a maximum level of 5 in relation to every element. The evaluation scales have been structured so that levels 1 and 2 are always indicative of a situation in which improvement will be required, but once level 3 or above is achieved, the organisation will have to reach its own decision as to whether their need is for performance at a higher level. It is not necessarily the case that any particular organisation will want its internal audit service to perform at the same level in respect of every element of the Framework – an aim to be at level 3 for some elements, level four for others, and level 5 for yet others would be perfectly reasonable.

In each of the seven elements there will be a specific evaluation scale to be used. To give you an idea of what is expected at each of the levels an example scale is given below.

Example evaluation scale:

| | |
|---------|--|
| Level 1 | Awareness of significant areas requiring development/improvement. |
| Level 2 | Plans developed to remedy areas for improvement are being implemented |
| Level 3 | Evidence to indicate that there is adequate performance in delivering overall assurance consistently |
| Level 4 | Evidence to indicate that there is good practice embedded and demonstrable added value in relation to the organisation's objectives |
| Level 5 | Evidence to indicate that others e.g. members of the profession recognise you as being exemplar, i.e. you are regularly asked to share your good practice with others. |

Initial application of the Framework

The Government Internal Audit Standards require an internal review every other year and an external review every five years. That, of course, does not prohibit more frequent or additional review. This Framework now becomes HM Treasury's recommended approach to these reviews.

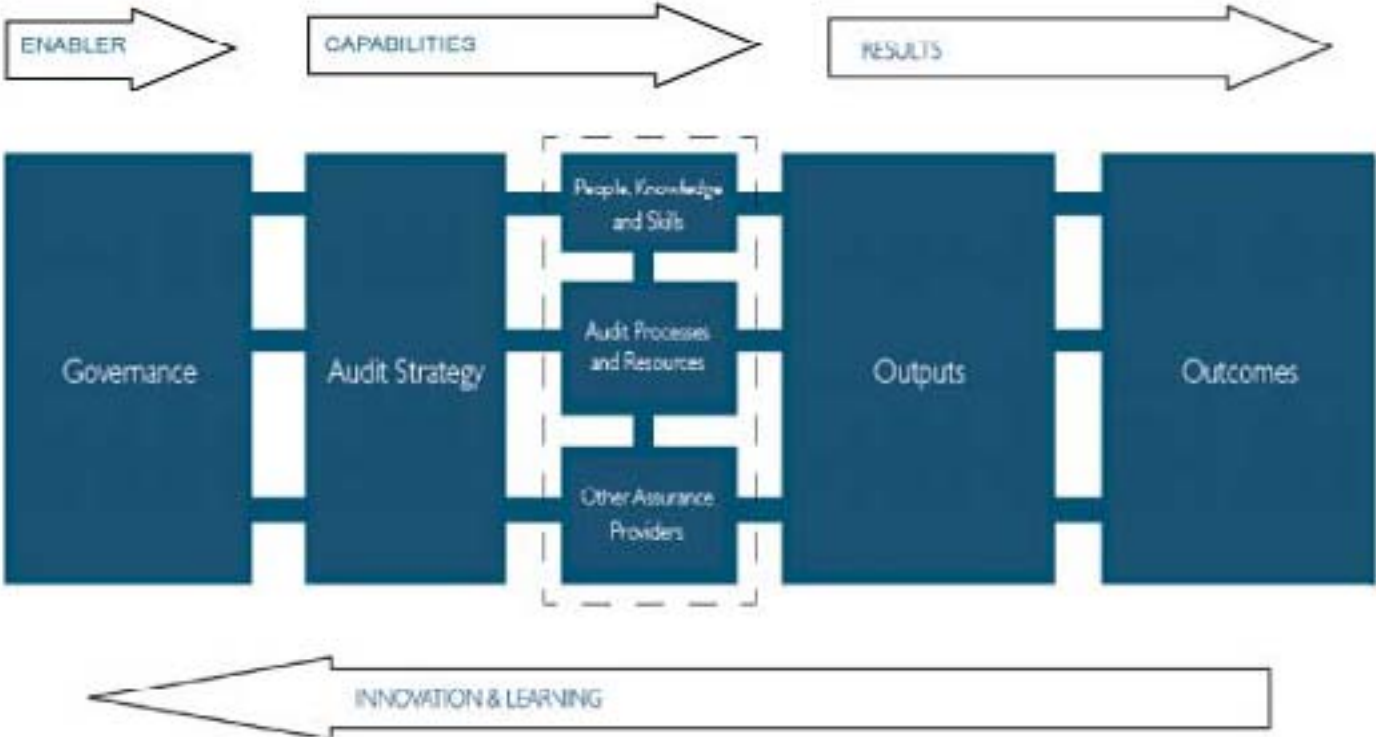
Heads of Internal Audit are encouraged to check when their next reviews are due and to plan for an initial application of this Framework to their own internal audit service.

It will be very helpful if, after use of the Framework, the Assurance, Control and Risk team are advised of any suggestions for ways in which the Framework can be improved or enhanced. Willingness to share the full results of any review will also be helpful in sharing information.

In addition, keeping ACR informed of the results would allow the identification of common issues and could inform our planning processes for future good practice or Standards development.

Assurance Control Risk Team
December 2006

INTERNAL AUDIT QUALITY ASSESSMENT FRAMEWORK



Adapted from the EQFM Excellence Model

1. GOVERNANCE

Are there robust governance arrangements that:

- a) promote effective internal audit?
- b) promote an effective relationship between the Accounting Officer/Board/Audit Committee and internal audit, with clearly understood roles and responsibilities?
- c) promote a culture of good business ethics and governance?

Summary of Progress

| Level 1: Emerging <input type="checkbox"/> | Level 2: Developing <input type="checkbox"/> | Level 3: Operating <input type="checkbox"/> | Level 4: Maturing <input type="checkbox"/> | Level 5: Exemplar <input type="checkbox"/> |
|---|---|--|--|--|
| <p>The Board is developing their understanding of their role in providing an environment in which internal audit can be an effective service.</p> | <p>The Board is implementing plans to provide an environment in which internal audit can be an effective service.</p> | <p>The Board has established an environment, which enables internal audit to deliver an effective service.</p> | <p>The Board responds well to receiving contributions from internal audit on risk, control and governance at all levels.</p> | <p>The Board proactively and regularly requests internal audit service to support the Board's needs.</p> |
| <p><u>Evidence</u></p> | | | | |

Action Plan

Target Date

AUDIT COMMITTEE

d) Does the Audit Committee actively promote risk, control and governance issues and the use of internal audit in contributing to them?

Summary of Progress

| Level 1: Emerging | Level 2: Developing | Level 3: Operating | Level 4: Maturing | Level 5: Exemplar |
|--|---|--|--|--|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| The Board recognises that there is a need to establish an Audit Committee that accords with the HM Treasury's Code of Good Practice and Audit Committee Handbook | The Board is in the process of establishing an Audit Committee that accords with the HM Treasury's Code of Good Practice and Audit Committee Handbook | An Audit Committee has been established, which meets the requirements of the HM Treasury's Code of Good Practice and Audit Committee Handbook. | Good arrangements are in place for the Board to promote risk, control and governance issues and the contribution made by internal audit. | Excellent arrangements are in place for the Board to promote internal audit's role in improving risk, control and governance arrangements. |
| <u>Evidence</u> | | | | |
| | | | | |

Action Plan

Target Date

INDEPENDENCE

e) Does the internal audit function have sufficient independence to fulfil its professional remit?

Summary of Progress

| Level 1: Emerging <input type="checkbox"/> | Level 2: Developing <input type="checkbox"/> | Level 3: Operating <input type="checkbox"/> | Level 4: Maturing <input type="checkbox"/> | Level 5: Exemplar <input type="checkbox"/> |
|--|---|--|--|--|
| Internal audit is not sufficiently independent of the executive. | Senior managers are planning for internal audit to operate independently of the executive and to have a formally approved Terms of Reference. | Internal audit is sufficiently independent from the executive, reports directly to the Accounting Officer, and has a formally approved Terms of Reference. | Internal audit is promoted throughout the organisation as a fully independent, objective assurance provider. | The executive actively encourages an independent and objective assessment from internal audit. |
| <u>Evidence</u> | | | | |

Action Plan

Target Date

2. AUDIT STRATEGY

Is there an audit strategy that clearly states the objectives of the internal audit function and how they will be delivered?

Summary of Progress

| Level 1: Emerging <input type="checkbox"/> | Level 2: Developing <input type="checkbox"/> | Level 3: Operating <input type="checkbox"/> | Level 4: Maturing <input type="checkbox"/> | Level 5: Exemplar <input type="checkbox"/> |
|---|--|--|---|---|
| <p>The need for an audit strategy has been identified and accepted.</p> | <p>An audit strategy that meets the requirements of the Board and Government Internal Audit Standards (GIAS) is being developed.</p> | <p>There is an audit strategy that adequately meets the needs of the Board and GIAS.</p> | <p>There is an audit strategy that as well as meeting the needs of the Board and requirements of GIAS, also seeks to continuously improve efficiency, effectiveness and economy of delivering the internal audit service.</p> | <p>Innovative, cutting edge strategic planning that is demonstrably achieving the optimum audit outcomes.</p> |
| <p><u>Evidence</u></p> | | | | |

Action Plan

Target Date

3. PEOPLE, KNOWLEDGE AND SKILLS

Does the internal audit function appropriately plan for, acquire, deploy and develop an appropriate and sufficient range of skills and knowledge?

Summary of Progress

| Level 1: Emerging <input type="checkbox"/> | Level 2: Developing <input type="checkbox"/> | Level 3: Operating <input type="checkbox"/> | Level 4: Maturing <input type="checkbox"/> | Level 5: Exemplar <input type="checkbox"/> |
|--|--|--|---|---|
| <p>It is recognised that internal audit is not appropriately resourced with sufficient staff that have the right knowledge and skills to enable the audit strategy to be achieved.</p> | <p>A strategy to recruit/ /contract-out/implement a partnership or a training programme for existing staff is being developed to acquire the required resources and to develop the skills required to meet the audit strategy. The resourcing needs of internal audit in respect of both numbers and skills has been identified.</p> | <p>Internal audit function has adequate staff in terms of both numbers and skills to deliver the audit strategy.</p> | <p>Internal audit function has adequate staff in terms of both numbers and skills to deliver the audit strategy and demonstrable commitment to continuing professional development.</p> | <p>Internal audit function has adequate staff in terms of both numbers and skills to deliver the audit strategy and demonstrable commitment to continuing professional development. There is also an appropriate succession plan in place to support the needs of the audit function and personal development of staff.</p> |
| <p><u>Evidence</u></p> | | | | |

Action Plan

Target Date

4. AUDIT PROCESSES AND RESOURCES

Do the internal audit processes and resources promote an effective and efficient internal audit function?

Summary of Progress

| Level 1: Emerging <input type="checkbox"/> | Level 2: Developing <input type="checkbox"/> | Level 3: Operating <input type="checkbox"/> | Level 4: Maturing <input type="checkbox"/> | Level 5: Exemplar <input type="checkbox"/> |
|--|--|---|--|--|
| <p>There is awareness of the need to develop appropriate internal audit processes.</p> | <p>Internal audit processes and resources are being developed in accordance with GIAS and good practice.</p> | <p>The internal audit function is adequately equipped with audit processes and resources that allow the function to perform its responsibilities competently and in accordance with GIAS.</p> | <p>Efficient audit processes and use of resources are fully embedded in the internal audit function, significantly improving its performance and capabilities. Processes regularly subjected to review with the objective of continuous improvement.</p> | <p>Cutting edge and innovative working processes. The internal audit function is recognised as a role model by others in the profession.</p> |
| <p><u>Evidence</u></p> | | | | |

Action Plan

Target Date

5. OTHER ASSURANCE PROVIDERS

Does the internal audit function effectively co-ordinate with appropriate assurance providers to reduce the burden of audit and ensure the Board receives overall assurance?

Summary of Progress

| Level 1: Emerging <input data-bbox="288 645 363 719" type="checkbox"/> | Level 2: Developing <input data-bbox="523 645 598 719" type="checkbox"/> | Level 3: Operating <input data-bbox="745 645 820 719" type="checkbox"/> | Level 4: Maturing <input data-bbox="975 645 1050 719" type="checkbox"/> | Level 5: Exemplar <input data-bbox="1198 645 1273 719" type="checkbox"/> |
|--|--|---|---|--|
| <p>The internal audit function is aware of the need to develop co-operation with other assurance providers including External Audit.</p> | <p>Approaches for co-ordinating the work of all assurance providers are being developed and implemented.</p> | <p>Internal audit adequately co-ordinates with both external audit and other assurance providers.</p> | <p>Internal audit co-ordinates with both external audit and other assurance providers with demonstrable commitment to improving and extending co-operation.</p> | <p>Innovative arrangements are in place to co-ordinate, monitor and place reliance on work undertaken by other assurance providers including external audit.</p> |
| <p><u>Evidence</u></p> | | | | |

Action Plan

Target Date

6. OUTPUTS - AUDIT PRODUCTS

Are audit products effective in communicating audit opinions and advice to various levels of the organisation?

Summary of Progress

| Level 1: Emerging <input type="checkbox"/> | Level 2: Developing <input type="checkbox"/> | Level 3: Operating <input type="checkbox"/> | Level 4: Maturing <input type="checkbox"/> | Level 5: Exemplar <input type="checkbox"/> |
|--|---|--|--|--|
| Awareness that current audit products are not making an appropriate contribution to the objectives of the organisation | Plans are being developed and implemented to provide appropriate audit products | The internal audit function adequately communicates audit opinions and advice, in a timely manner. | Audit products are communicated expertly, are well received and understood. A system of continuous improvements is also in evidence. | Innovative, cutting edge methods of communicating the audit products to audit clients. |
| <u>Evidence</u> | | | | |

Action Plan

Target Date

7. OUTCOMES

- **AUDIT IMPACT ON RISK, CONTROL AND GOVERNANCE**
- **IMPACT ON ORGANISATION DELIVERY**

Does the Accounting Officer/Board believe it is sufficiently assured and supported in decision making by the work of internal audit?

Does internal audit advice lead to change that impacts on management of the organisations risk priorities?

Summary of Progress

| Level 1: Emerging | Level 2: Developing | Level 3: Operating | Level 4: Maturing | Level 5: Exemplar |
|--|--|--|--|--|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Awareness that the internal audit service is not having an impact on risk, control and governance within the organisation. | Developing a plan to improve or change the internal audit service and products to have an improved impact on the risk, control and governance within the organisation. | Improvements in risk, control, governance, and organisational performance can be linked to audit work. | Evidence that internal audit's contribution is valued by the Board to an extent whereby they actively make use of internal audit to achieve performance improvement. | There is evidence that the approach to internal audit in this organisation is such that it is recognised as being exemplar of what the profession can achieve. |
| <u>Evidence</u> | | | | |

Action Plan

Target Date

Overall Summary of Progress

As already stated it will not always be necessary or appropriate to aim for level 5 in any particular area. It is also important to note that any particular organisation is unlikely to be at the same level in all areas.

| | Emerging | Developing | Operating | Maturing | Exemplar |
|--------------------------------------|-----------------|-------------------|------------------|-----------------|-----------------|
| Level | 1 | 2 | 3 | 4 | 5 |
| Governance | | | | | |
| Audit Committee | | | | | |
| Independence | | | | | |
| Audit Strategy | | | | | |
| People, Knowledge and Skills | | | | | |
| Audit Processes and Resources | | | | | |
| Other Assurance Providers | | | | | |
| Outputs | | | | | |
| Outcomes | | | | | |

Overall Action Plan

| | Action | Target Date |
|-----------|---------------|--------------------|
| 1 | | |
| 2 | | |
| 3 | | |
| 4 | | |
| 5 | | |
| 6 | | |
| 7 | | |
| 8 | | |
| 9 | | |
| 10 | | |

1. GOVERNANCE

Are there robust governance arrangements that:

- a) promote effective internal audit?**
- b) promote an effective relationship between the Accounting Officer/Board/Audit Committee and internal audit, with clearly understood roles and responsibilities?**
- c) promote a culture of good business ethics and governance**

Is there an effective relationship between the Accounting Officer/Board/Audit Committee and Internal Audit?

- Is the relationship between the Accounting Officer (including any third party Accounting Officer), Board, Audit Committee and Head of Internal Audit (HIA) adequately documented, communicated and understood by all relevant parties, reviewed regularly and updated as appropriate to the organisation's needs?
- Has the Accounting Officer advised the HIA of their requirements regarding how internal audit should provide an independent and objective opinion on risk management, control and governance?
- Does the HIA report directly to the Accounting Officer?
- Does the Accounting Officer (with advice as appropriate from the Audit Committee) make adequate arrangements for the routine provision and management of the budget and resources of internal audit?
- Is there a two-way link between the Board and Audit Committee through an element of common membership that allows the Audit Committee to know and understand the Board's priorities?
- Does the Audit Committee report its work to the Board on a regular basis?
- Are the minutes of Audit Committee meetings available to all Board members?
- Where part of the business of the department is conducted with and through arm's length bodies are the roles and responsibilities of each including governance arrangements clearly documented?

Does the environment in which internal audit operates promote an appropriate culture of good business ethics/public sector values and governance?

Is there clear evidence that:

- There is a written Code of Conduct that has been communicated to all staff in the organisation? Is it monitored and the appropriate action taken for all violations?
- "Whistleblowing" routes are available to all staff?
- A "Whistleblowing" policy been promulgated to all staff?
- Anti-fraud policy has been issued to all staff?

- Internal audit staff are aware of the Code of Ethics setting out the conduct expected from all members of the internal audit unit when carrying out their duties? Does the Code include four main principles: Integrity, Objectivity, Competency and Confidentiality?
- The HIA is kept informed of all new organisational developments in a timely manner?
- The role and responsibilities of internal audit towards Fraud in the organisation has been clearly documented, promulgated to all staff, reviewed and updated regularly.
- The HIA is notified and kept informed of all suspected or detected fraud in the organisation including the involvement of external agencies, such as the police?
- Where a fraud has occurred, the HIA has considered the impact of the fraud and the adequacy of the relevant controls. The HIA has evaluated the implication of the fraud on their opinion of risk management, control and governance, and considered making recommendations to line managers regarding any need for more detailed investigation and improvements in control?

***Corporate governance in central government departments: Code of good practice
July 2005
Government Internal Audit Standard 1 and 2***

AUDIT COMMITTEE

d) Does the Audit Committee actively promote risk, control and governance issues and the use of internal audit in contributing to them?

Does the Audit Committee:

- Have a Terms of Reference (agreed by the Accounting Officer/Board) that adequately defines the Audit Committee's role and provides it with sufficient membership, authority, time and resources, to perform its role effectively?
- Consist of 3-5 members?
- Have an independent non-executive chairperson?
- Have an appropriate skills mix – corporately including:
 - Financial Management and Reporting?
 - Risk Management?
 - Audit?
 - Technical or specialist issues pertinent to the organisation's business?
- Consist of members who have been inducted into the organisation including where appropriate the government environment and accountability structures?
- Have a Chair who allows the HIA free access to discuss any issues they wish to raise?
- Have a Chair who meets separately with the HIA at least once a year?

Is there sufficient evidence such as Audit Committee/Board minutes that confirm?

- The Audit Committee has an appropriate level of understanding of the purpose and work of the organisation?
- Where extra information is required the Audit Committee has obtained the appropriate advice from the executive/internal audit/other assurance providers as appropriate?
- The Audit Committee advise the Accounting Officer on the skill, experience, and competency requirements for the post of HIA?
- The Audit Committee has approved the Terms of Reference for internal audit?
- The audit committee has considered whether the status and remit of internal audit reflect the requirements of the organisation?
- The formal audit charter outlining the scope of the internal audit function's work, its reporting lines, and its rights of access to people, properties, records and information has been approved by the Audit Committee and circulated to all managers to promote the internal audit service throughout the organisation?
- The Audit Committee advise on the audit strategy, periodic work plans of internal audit, and material changes to these plans, the HIA's annual and interim audit report (s), and any implications arising from their findings and opinion?
- The Audit Committee has sought the views of internal audit on the work and effectiveness of the Audit Committee?
- The HIA or their representative attends all Audit Committee meetings?
- The Audit Committee receives, considers and actions all internal audit reports and in particular the management response to the recommendations and the follow up action to ensure that agreed recommendations have been fully implemented?
- The Accounting Officer has sought the Audit Committee's advice on:
 - The resourcing of internal audit?
 - The arrangements for and the results of quality assurance processes?
 - The adequacy of management response to internal audit advice and recommendations?
- The Audit Committee monitors and reviews the effectiveness of the internal audit function.
- The Audit Committee provides advice to the Board on the HIA's interim and annual reports?
- The Audit Committee provide advice to the Board on the effectiveness of the internal audit strategy in addressing the organisation's risks and corporate governance requirements for the organisation?
- The Audit Committee take an active role in promoting good co-operation with all internal and external review agencies and assurance providers?
- Internal and external audit regularly communicate with each other and the Audit Committee to ensure that their audit plans are co-ordinated and minimise any duplication of effort?

Corporate governance in central government departments: Code of good practice, July 2005

The Audit Committee Handbook, October 2003

Government Internal Audit Standard 3

INDEPENDENCE

e) Does the internal audit function have sufficient independence to fulfil its professional remit?

How does internal audit ensure that it has sufficient independence?

- Does internal audit have a formal Terms of Reference (agreed by the Audit Committee and Accounting Officer) that establish its responsibility, authority, objectives, scope, organisational independence, and right of access? Is this document regularly reviewed, and communicated to all relevant people?
- Does the HIA report direct to the Accounting Officer/Chair of the Audit Committee
- Is the internal audit function entirely free of executive responsibilities?
- Has the HIA post been evaluated within the last three years, to ensure that the post is of a grade sufficient to give due weight to the influence of the HIA on the risk management, control and governance of the organisation?

Are internal auditors sufficiently independent and objective by?

- Not auditing operational areas for which they have previously had executive or management responsibility within a reasonable timescale?
- Not undertaking subsequent audits of a system, which they have previously been involved in consultancy on systems design?

Independence is further enhanced by having systems in place that:

- Ensure that internal auditors who have long-term responsibility for audit of a particular aspect of an organisation do not have their independence impaired over time?
- Identify and deal with conflicts of interest such as audit contractors having an interest in delivering other services to the organisation?
- Convey recommendations through audit reports, which make it clear that management acceptance of the recommendation, includes acceptance of the executive responsibility for the revised operation of the control?

Corporate governance in central government departments: Code of good practice, July 2005
Government Internal Audit Standard 1 and 2

2. AUDIT STRATEGY

Is there an audit strategy that clearly states the objectives of the internal audit function and how they will be delivered?

The HIA should agree with the Audit Committee the format of the audit strategy. Options include a single strategy document, the setting out of the strategy in an Audit Manual or a series of Audit Policy papers, which can be reviewed and amended as necessary.

Is there an audit strategy, which:

- Considers the extent to which internal audit is able to rely on management's risk analysis? (OR the ways in which internal audit should assist management in developing their risk analysis)?
- Sets out how the internal audit function will deliver a positive reasonable assurance on risk, control and governance including providing:
 - Assurance on the Risk Management Strategy – Ascertain the extent to which all line managers review the risks/controls within the ambit of their responsibility?
 - Assurance on management of risks/controls themselves – encompass all the key risks and encompass enough of the other risks to support confidence in the overall opinion reached?
 - Assurance on the adequacy on the review/assurance process – quality assured to engender confidence in the review process?
 - and the depth, scope, and frequency of work, which will need to be done to obtain it
- Gives consideration of all the areas of responsibility of the internal audit function including:
 - Consideration of the areas of change in the organisation, which are being subjected to systems development audit?
 - Includes consideration of the Consultancy work that should be undertaken by the internal audit function and how the Consultancy work contributes to the overall assurance/opinion (or not)?
- Includes an assessment of optimal resources and skills required to deliver both the audit assurance and consultancy work, including identification of specialist skills, which may be required?
- Includes an assessment of the impact of any shortfall in the actual resources and skills available?
- Includes consideration of options to ensure that any gap in audit coverage/skills gap is filled?
- Includes an assessment of the range of audit techniques that have been selected as the most effective for delivering the audit objectives?
- Sets out how and when the internal audit function will be externally quality assured?
- Sets out the approach to recruiting/training/continuing professional development of internal audit staff to ensure that they are suitably skilled to deliver the internal audit service?

- Includes an assessment of risks that the audit unit itself faces in delivering the strategy and plans for controlling and mitigating the risks identified?
- Sets out how internal audit will facilitate effective co-operation with external auditors and other review bodies functioning in the organisation to ensure the most effective audit coverage, enhanced knowledge and minimise duplication of effort?
- Includes consideration of if, and how internal audit will rely on the assurance provided by external audit and other assurance providers?
- Sets out how the internal audit service will measure its performance, quality assure itself and seek continuous improvement?
- Has been approved by the Accounting Officer and Audit Committee?
- Has been promulgated to all relevant parties including members of the audit unit excluding any restricted information for senior managers only?
- Is subject to regular review to ensure that it remains appropriate and current?

Periodic plan

Is the periodic plan:

- In alignment with the internal audit strategy and sufficient to achieve the objectives of the internal audit strategy, and to facilitate a positive, reasonable assurance? If the periodic plan falls short of the audit strategy, is there an agreed action plan for meeting the shortfall?
- Inclusive of all appropriate risk areas – e.g. External, Operational, and Change as per HM Treasury’s Orange Book?
- Inclusive of purpose, scope, required resources and any specialist skills for each assignment?
- Formally approved by the Accounting Officer and Audit Committee?
- Reviewed regularly and changes to the periodic plan are reported to the Accounting Officer and Audit Committee and authorised appropriately?
- Discussed as part of the audit planning process, with appropriate operational managers about internal audit work, which may be undertaken in their business areas?

Government Internal Audit Standard 5 and 6
Good Practice Guidance: Audit Strategy

3. PEOPLE, KNOWLEDGE AND SKILLS

Does the internal audit function appropriately plan for, acquire, deploy and develop an appropriate and sufficient range of skills and knowledge?

Does internal audit have appropriate resources to deliver its objectives?

- Is internal audit sufficiently resourced (in terms of staff and budget available) to meet the audit objectives outlined in the audit strategy including full coverage of the periodic plan to ensure that it is able to deliver a positive reasonable assurance on risk, control and governance? If not, is there an action plan for how the internal audit function intends to meet any shortfall?

- Does the Audit Committee discuss and give advice to the Accounting Officer on the resourcing of the internal audit function?
- Is there a recruitment strategy that sets out the recruitment standard to ensure that all staff have the appropriate intellectual qualities, personal attributes and qualifications? Does the strategy reflect the desire to have internal auditors from diverse backgrounds?
- Is there a retention strategy that clearly sets out how the unit will try to retain skilled staff?
- Is there a succession plan to ensure that vacancies are filled promptly by appropriately qualified staff?
- Is outsourcing used to fill any gaps in audit coverage?

Does the internal audit function possess collectively the knowledge and skills required to achieve the audit strategy and to deliver the periodic plan?

- Has consideration been given to the technical expertise, qualifications and experience required by the internal audit function to ensure assurance can be provided in all areas of the business?
- Has the HIA been awarded the Government Internal Audit Certificate (GIAC) and has a wide experience of management?
- If not, are adequate arrangements in place to ensure professional leadership in the audit unit?
- Do the skills required to meet the overall audit objectives match with the skills held by the staff of the internal audit function?
 - Is there a documented skills register identifying the skills needed to meet the identified audit need?
 - A documented skills register identifying the skills of staff in post?
 - A unit-training plan to meet any gap between the two skills registers?
- Is there appropriate administration support for internal auditors/audit managers?
- Are internal audit staff empowered to identify opportunities that will better deliver aims and objectives?
- Where there is a contracted out or partnership arrangement, is there provision in the contract to ensure that employees with the appropriate skills are engaged to deliver assurance work? Is there ongoing monitoring to ensure that contractors continually have the skills required for designated audit assignments?

Is provision made to ensure that the internal audit function has the appropriate internal audit knowledge, experience and skills?

- Are all audits undertaken or supervised by internal auditors who hold GIAC?
- Does the recruitment strategy give consideration to the likelihood of recruits obtaining GIAC in a reasonable period of time?
- Do all GIAC qualified staff undertake Continuing Professional Development (CPD)? Do staff keep a record of all such training planned and undertaken?
- Do all staff have a training and development plan identifying training that they need to undertake either as part of their own development or to ensure that the internal audit function has the skills required to meet the audit plan? Is the plan authorised/monitored/regularly reviewed?

- Does the internal audit function maintain a central record of all training undertaken and achievements in the unit?
- Does the audit planning include a sufficient time provision for training (including CPD) for all staff?
- Do all new staff receive induction training including both the internal audit function and induction into the organisation?
- Are arrangements in place to ensure that new staff receive an early assessment of their development needs and appropriate guidance, training etc to quickly address these needs?
- Are Staff deployed on assignments to enable them to both capitalise on their existing skills and to develop their skills further?
- Is there a process in operation whereby experienced staff can mentor less experienced staff on audit or consultancy assignments?
- Do HIA/Senior Audit Managers ensure that all staff are aware of the audit unit objectives especially on quality standards and that they are cascaded down into personal objectives for all staff?
- Do all staff attend regular team meetings, staff conferences to ensure that they remain up to date on knowledge of the organisation, the internal audit function and audit practices? Do staff have the opportunity to give input on topics to be discussed at staff meetings/staff conferences and to give feedback on events held?
- Does the internal audit section have systems in place to facilitate knowledge and sharing of best practice/organisational learning?
- Does skills transfer take place when consultants or contractors with specific expertise work within audit teams?
- Are staff being developed to fulfil their full potential?

Government Internal Audit Standard 3 and 5

4. AUDIT PROCESSES AND RESOURCES

Do the internal audit processes and resources promote an effective and efficient internal audit function?

Does the audit processes allow for an effective and efficient internal audit function by:

- Being in accordance with Government Internal Audit Standard (GIAS)?
- Having detailed assignment plans, setting out the scope, objectives, resources, targets, timing and reporting lines for each assurance and consultancy assignment?
- Having a named “sponsor” for each assignment of a sufficient grade to agree the audit recommendations and be accountable for the implementation programme?
- Having an initial meeting with the audit client to discuss the scope and objectives, audit fieldwork and agree report format and timing?
- Continually reviewing and updating the methodologies used in line with current practice?

- All internal auditors using standard documentation to ensure that evidence and findings are adequately documented, a systematic and structured approach is used and that there is consistency of approach?
- Having an “internal audit manual” (the elements in the internal audit manual may be provided electronically and not always in a single document) that is reviewed and updated regularly in accordance with current practice. It includes:
 - Code of Ethics?
 - Policies and procedures to guide internal audit staff in the performance of all their duties?
 - Standards for audit work?
 - Standards and procedures for the reporting of audit findings?
 - Retention requirements for audit documentation?
 - Follow up procedures?
 - Documented disclosure policy for reports produced by internal audit?
 - Procedures for coordination and cooperation with other review agencies?
- Having closing meetings with managers of a sufficient grade to agree the audit recommendations and be accountable for the implementation programme?
- Having a follow up procedure that ensures agreed recommendations are implemented effectively?
- All work performed by trainee auditors is subject to comprehensive supervision to ensure that the work meets the standards set for audit/consultancy work?
- The HIA co-ordinating internal audit work with the work of others especially line managers, external audit and other review agencies to ensure that disruption to business areas is kept to a reasonable level?
- Individual auditors / audit teams circulate their reports within the unit to ensure that their colleagues have a clear overall view of the wider control environment?

Are there arrangements for appropriate communication?

- There are effective arrangements in place to meet the requirements of the Freedom of Information and Data Protection Acts?
- Internal audit has developed good communications with clients at all levels of the business environment?
- Managers are kept fully informed of the audit progress and are promptly notified of any likely delays?
- Publicity leaflets and brochures are used to enhance the understanding of the audit role and relationship with clients?
- Internal audit intranet explains the role and objectives of internal audit and how it can assist the executive in achieving their objectives?

Does Internal Audit use information technology to improve?

- The audit process e.g. interrogation packages/audit software packages?
- Communication with internal audit staff and audit clients?
- Audit records management

5. OTHER ASSURANCE PROVIDERS

Does the internal audit function effectively co-ordinate with appropriate assurance providers to reduce the burden of audit and ensure the Board receives overall assurance?

Does internal audit co-ordinate effectively with other assurance providers?

- Has internal audit actively explored and developed, as appropriate, opportunities to exchange findings and place reliance on the work of others (within constraints of professional requirements, standards and operational restrictions)?
- Does internal audit have a procedure in place to promote co-operation between internal and external audit? Co-operation is in accordance with the principles set out in the Good Practice Guide published by HM Treasury and National Audit Office?
- Is there a strategy for appropriate communication between all assurance providers?
- Does the HIA meet regularly with the heads of the other assurance providers?
- Does internal audit discuss their periodic plan with other assurance providers to ensure that the most effective audit coverage is achieved and duplication of effort is minimised?
- Does the HIA receive copies of third party assurance reports?
- Does internal audit have documented procedures and standards for placing reliance on the work of other bodies, other internal audit providers and cross departmental review bodies?

Monitoring and reviewing performance

- Does internal audit receive regular information from assurance providers (key issues, emerging risks/control weaknesses), to allow them to monitor and review the performance of all assurance providers involved?
- Have the respective roles and responsibilities of the involved parties been clearly defined and agreed by each Accounting Officer when internal audit needs to work with other internal auditors from another organisation?
- Are there procedures in place to identify and gain an overview of the work of other assurance providers?
- Does internal audit have sufficient rights of access to obtain appropriate information from other assurance providers if required?
- Is there an effective quality assurance process that is used on work undertaken by other assurance providers?
- Does the internal audit function have guidance on the need for a consistent and common approach to internal audits that cut across organisation boundaries?

6. OUTPUTS - AUDIT PRODUCTS

Are audit products effective in communicating audit opinions and advice to various levels of the organisation?

Is audit reporting effective?

- The HIA has set local standards and procedures for the reporting of audit findings including:
 - Key documentation is reviewed by a senior member of the audit function to ensure that the audit has been carried out in sufficient depth, covering the set scope, and to the appropriate quality standard, prior to audit findings being given to the auditee/client?
 - The focus is kept on the benefit of an action, not incentivising the auditor to make lots of little recommendations?
 - Audit closure meetings are held at the end of each audit to discuss audit findings?
 - Discussions with management about interim and draft reports are documented on audit files to demonstrate that they have been fully consulted about emerging findings and proposed recommendations?
 - All audit reports, for each assignment, are issued in a format, medium, and timescale agreed with the sponsor?
 - The written report is a clear and concise record of the audit assignment and should at least include a description of the objectives of the business area covered during the assignment, the risks being examined, an evaluation of the adequacy and effectiveness of risk management and mitigating controls, an audit opinion, any recommendations for improvement and any good practice identified or wider lessons that could be learned?
 - Audit reports are security classified in accordance with the classification of the subject material?
 - A system of grading the weaknesses found is used to enable management to prioritise key areas in the implementation programme?
 - There is an escalation procedure for dealing with significant audit findings/recommendations? These are fully documented?
 - Where disagreement continues, the audit finding remains in the report for discussion as appropriate at the Audit Committee?
- Where internal audit have used the work of other review bodies, such as management inspection or compliance teams, during the audit assignment this has been made clear in the audit report?
- Where internal audit have worked jointly with other internal auditors from another organisation, this has been made clear in the report?
- The principles of assignment reporting apply equally to consulting engagements. Although, communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.
- Summary reports of overall audit/consultancy activity are made to the Accounting Officer and / or Audit Committee at least quarterly advising them of emerging issues and trends in the risk management, control and governance processes. These summary reports are the "building blocks" of the Annual Audit Report and

should include any significant issues, specific advice and opinion relevant to the preparation of the Statement on Internal Control made by the Accounting Officer?

- A summary should also be given of the recommendations agreed to and the progress of implementing them?
- The HIA presents, at least annually, a report of internal audit activity containing an opinion of the overall adequacy and effectiveness of the organisation's risk management, control and governance processes to the Accounting Officer and / or Audit Committee. The report draws attention to significant issues particularly relevant to the Accounting Officers preparation of their Statement on Internal Control and compares actual audit activity with that planned? The annual report fully meets the requirements of the Accounting Officer?

Is the identification and capturing of soft products effective?

- Is the HIA kept up to date of changes and projects in the organisation and directs audit activity as appropriate?
- Does internal audit add value by promoting good practice throughout the organisation?
- Is a record kept of all material ad-hoc advice and guidance given?

Is quality assurance effective?

- Audit products are monitored for
 - Quality/accuracy/usefulness/relevance?
 - Timeliness?
 - Compliance with GIAS?
- Audit products, which are actually produced, are monitored against those anticipated/planned/agreed?
- The impact/benefit of all audit products are evaluated?
- There is a quality assurance programme that gives both internal and external assurance on the work that internal audit completes to ensure compliance with GIAS and achieves its objectives?
- Internal Quality reviews are undertaken at least every two years with the results documented and an action plan produced to address any weaknesses identified.
- External Quality reviews are undertaken at least every five years by appropriately qualified and independent reviewers under arrangements agreed with the Accounting Officer? The HIA has developed a programme for addressing any weaknesses identified and agreed an action plan with the Accounting Officer? Progress against any such plans are reported upon in the annual audit report?
- The HIA reviews and evaluates the work of the internal audit function to seek assurance that due professional care is exercised? The results of the review are documented?
- Other Quality Assurance mechanisms exist such as ISO 9000 or the Business Excellence Model and are used by the internal audit function to enhance assurance about the quality of their work?

Government Internal Audit Standard 9 and 10

Good Practice Guidance: Reporting

Good Practice Guidance: Delivering Audit Assignments; A Risk Based Approach

7. OUTCOMES

- **AUDIT IMPACT ON RISK, CONTROL AND GOVERNANCE**
- **IMPACT ON ORGANISATION DELIVERY**

Does the Accounting Officer/Board believe it is sufficiently assured and supported in decision-making by the work of internal audit?

Does internal audit advice lead to change that impacts on management of the organisations risk priorities?

Is there evidence that:

- The internal audit function performs its work in accordance with the GIAS?
- The internal audit function focuses on the key issues that concern the Board/Accounting Officer/ Audit Committee?
- The audit strategy was appropriate to deliver a positive reasonable assurance (including highlighting any issues) on risk, control and governance?
- Internal audit work was focussed on the right areas – did not duplicate the work that other assurance providers undertake?
- The periodic plan was fully achieved?
- The Accounting Officer, Board and Audit Committee are kept informed of emerging issues and trends in the risk management, control and governance processes? Summary reports are provided at least quarterly?
- The HIA presents, at least annually, a report of internal audit activity containing an opinion of the overall adequacy and effectiveness of the organisation's risk management, control and governance processes to the Accounting Officer and / or Audit Committee. The report draws attention to significant issues particularly relevant to the Accounting Officers preparation of their Statement on Internal Control?
- The Accounting Officer/Board/Audit Committee have fully considered the assurance given by internal audit and based their decisions on the assurance given?
- The full range of assurances (including those not from internal audit) is sufficient to facilitate the development of a meaningful Statement of Internal Control?
- There are appropriate mechanisms in place to ensure that the assurances are reliable?
- The Statement of Internal Control realistically reflects the assurances?
- The Statement of Internal Control appropriately discloses action to deal with material problems?

Effective monitoring and reviewing of outcomes?

- Relevant feedback (including wherever possible face to face meetings) on the performance, effectiveness, quality and added value provided by the internal audit function is obtained yearly from:
 - Audit Committee?

- Accounting Officer and Board?
- External Audit?
- Manager's views on how the audit/consultancy assignment was carried out, are obtained after each assignment has been completed? Face to face meetings are beneficial but if not possible, is the information requested adequate to give a good picture of how the internal audit team/auditor performed?
- The results of the feedback are then considered and action is taken on any key weaknesses highlighted?
- The results of the feedback are reported to and reviewed by the Audit Committee?
- Have there been any significant control breakdowns or surprises in areas that have been reviewed by the internal audit function? If so, has the HIA reviewed the audit work undertaken to ensure that it was carried out with due professional care?
- The internal audit function ensures that recommendations made are cost effective?
- Are attempts made to quantify the impact/benefit of internal audit recommendations/advice?
- Is there an agreed (with the Audit Committee) set of performance indicators that the internal audit function monitors its work against and reports regularly to the Audit Committee on?
- Has the performance of the internal audit function been benchmarked against best practice?

Has internal audit had a positive impact on Risk, Control and Governance?

- The Audit Committee is kept informed of how many recommendations have been implemented and whether the implementation has been effective or not?
- Any issues arising from management not accepting or not implementing internal audit recommendations are escalated and resolved in a timely manner?
- Through keeping up to date with business needs of the organisation internal audit has been able to influence the direction and impact of changes being made?
- By keeping up to date on main business risks to the organisation internal audit has been able to give appropriate assurance on whether risks are being managed and whether the internal control framework is operating effectively?
- Through its work on risk, internal audit has been able to promote "a risk conscious mindset"?
- There is evidence of internal audit advice having a positive impact on the risk, control and governance of the organisation?
- The HIA presents a summary in their annual report of how they believe they have impacted on the organisation?
- There is evidence that the internal audit function has enhanced management understanding of Risk, Control and Governance?
- The internal audit function is actively educating managers in risk, control and governance issues?
- There is evidence that the internal audit function raises significant control issues at an appropriate level in the organisation? (Getting the Outputs properly targeted)

- There is evidence that the internal audit function strives to provide a continuously improving service?
- Internal audit function asks powerful questions that stimulate debate leading to improvements in key risk areas?

Is there evidence of linkage between internal audit work/recommendations and improvements in?

- Public services (delivery to meet commitments e.g. to quality, coverage, timeliness, with few errors, etc; potential disruptions to delivery anticipated and avoided/addressed/mitigated etc)?
- PSA target achievement?
- Project success?

- Does the Accounting Officer/Audit Committee/Operational management feel that internal audit has contributed to improvements in organisational delivery?