

GOVERNMENT INTERNAL AUDIT STANDARDS



**HM Treasury
Audit Policy & Advice
October 2001**

**DEFINITION OF INTERNAL AUDIT
AND STANDARDS FOR
THE PROFESSIONAL PRACTICE OF
INTERNAL AUDIT IN
GOVERNMENT ORGANISATIONS**

CONTENTS

	Page
INTRODUCTION	6
DEFINITION OF INTERNAL AUDIT	7
CODE OF ETHICS	8
ORGANISATIONAL STANDARDS	11
STANDARD 1 Scope of internal audit	11
STANDARD 2 Independence	15
STANDARD 3 Audit committees	17
STANDARD 4 Relationships with management, other auditors and other review bodies	19
STANDARD 5 Staffing, training and development	21
OPERATIONAL STANDARDS	23
STANDARD 6 Audit strategy	23
STANDARD 7 Management of audit assignments	25
STANDARD 8 Due professional care	29
STANDARD 9 Reporting	31
STANDARD 10 Quality assurance	35

INTRODUCTION

Government Accounting requires Accounting Officers, in accordance with their terms of appointment, to make provision for internal audit in accordance with the standards set out in the Government Internal Audit Manual.

The definition of internal audit, Code of Ethics and the accompanying Standards for the professional practice of internal audit in central government organisations which are subject to the provisions of Government Accounting, are addressed to both Accounting Officers and Heads of Internal Audit. The definition and standards have been updated to reflect the Institute of Internal Auditors' new standards, so aiming to minimise any possible conflict for internal auditors in government who are members of the Institute. They nevertheless continue to reflect both the unique accountability structures of central government, and the developing nature of internal audit as it continues, in a context of rapid change and development, to add value¹ to the organisations it serves.

We hope they will also prove beneficial (as have previous standards and versions of the Government Internal Audit Manual) to the wider public sector.

The standards define the way in which the internal audit service should be established and undertake its functions. They cover both assurance-related and consultancy work. They apply equally to internal audit services which are provided by in-house audit units, by in-house audit units under service level agreements following market tests, and by external contractors who provide either partial services in support of an in-house team or the whole internal audit service.

The Standards form two groupings. The first encompasses the organisational and structural aspects of internal audit; the second encompasses the activity and operation of internal audit:

Organisational Standards	Operational Standards
1 Scope of internal audit	6 Audit strategy
2 Independence	7 Management of audit assignments
3 Audit Committees	8 Due professional care
4 Relationships with management, other auditors and other review bodies	9 Reporting
5 Staffing, training and development	10 Quality assurance

¹ The way in which internal audit adds value is set-out in the "Definition of Internal Audit"

If any organisation subject to these Standards knowingly (unavoidably or deliberately) does not comply with them on a long-term basis, the reasons for the non-compliance should be documented and discussed with HM Treasury.

DEFINITION OF INTERNAL AUDIT

Internal audit is an independent and objective appraisal service within an organisation:

- Internal audit primarily provides an independent and objective opinion to the Accounting Officer² on risk management, control and governance, by measuring and evaluating their effectiveness in achieving the organisation's agreed objectives³. In addition, internal audit's findings and recommendations are beneficial to line management in the audited areas. Risk management, control and governance comprise the policies, procedures and operations established to ensure the achievement of objectives, the appropriate assessment of risk, the reliability of internal and external reporting and accountability processes, compliance with applicable laws and regulations, and compliance with the behavioural and ethical standards set for the organisation.
- Internal audit also provides an independent and objective consultancy service specifically to help line management improve the organisation's risk management, control and governance. The service applies the professional skills of internal audit through a systematic and disciplined evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the organisation's objectives, and through recommendations for improvement. Such consultancy work contributes to the opinion which internal audit provides on risk management, control and governance.

² In the case of NDPBs the opinion may also be given to the statutory board where it has an executive function.

³ Audit work designed to deliver opinion on the risk management, control and governance of the organisation is referred to in these Standards as "assurance work" because management use the audit opinion to derive assurance about the effectiveness of their controls

CODE OF ETHICS FOR INTERNAL AUDITORS IN CENTRAL GOVERNMENT

The purpose of this code of ethics is to set the central and local standards for the performance and conduct of the staff and units to which it applies. This code is intended to clarify the standard of conduct expected from all members of the internal audit unit when carrying out their duties. The code applies to all staff and units who are required to comply with the Government Internal Audit Standards, but does not supersede or replace the Civil Service Code.

There are four main principles that should be observed.

1. **INTEGRITY**
2. **OBJECTIVITY**
3. **COMPETENCY**
4. **CONFIDENTIALITY**

INTEGRITY

All members of the internal audit team should demonstrate integrity in all aspects of their work. The relationship with fellow colleagues and external contacts should be one of honesty and fairness. This establishes an environment of trust which provides the basis for reliance on all activities carried out by the internal audit team.

OBJECTIVITY

Objectivity is a state of mind that has regard to all considerations relevant to the activity or process being examined without being unduly influenced by personal interest or the views of others. Members of the internal audit team should display appropriate professional objectivity when providing their opinions, assessments and recommendations.

COMPETENCY

Members of the internal audit team should apply the knowledge, skills and experience needed in the performance of their duties. They should carry out their work to the standards set out in the Government Internal Audit Standards. They should not accept or perform work that they are not competent to undertake unless they receive adequate advice and support to competently carry out the work.

CONFIDENTIALITY

Members of the internal audit team should safeguard the information they receive in carrying out their duties. There should not be any unauthorised disclosure of information unless there is a legal or professional requirement to do so.

Confidential information gained in the course of audit duties should not be used to effect personal gain.

ORGANISATIONAL STANDARDS

1. SCOPE OF INTERNAL AUDIT

1.1 Provision of Terms of Reference

1.1.1 The purpose, authority and responsibility of internal audit should be formally defined by the Accounting Officer in Terms of Reference which:

- a. are consistent with the definition of internal auditing and with these standards
- b. specify the requirements for the appointment of the Head of Internal Audit and their staff, including professional skills and experience
- c. establish the responsibilities and objectives of internal audit
- d. establish the relationship of the Head of Internal Audit with the Accounting Officer and Audit Committee
- e. establish the relationship between the Head of Internal Audit and any Accounting Officers or third-parties to be reported to⁴. The Terms of Reference should specify that Heads of Internal Audit should review any such report with their Accounting Officer and Audit Committee prior to publication
- f. establish the organisational independence of internal audit, including the direct accountability of internal audit to the Accounting Officer and make appropriate provision for the objective assessment of the resource requirements of internal audit
- g. embrace the risk management, control and governance processes of the organisation including all its operations, resources, services, and responsibilities for other bodies
- h. enable the Head of Internal Audit to deliver an audit opinion of the nature specified by the Accounting Officer
- i. define the consultancy role of internal audit
- j. establish internal audit's right of access to all records, assets, personnel and premises, and its authority to obtain such information as it considers necessary to fulfil its responsibilities

⁴ Heads of Internal Audit in Executive Agencies or NDPBs may also be required to provide reports to the Accounting Officer of the sponsoring department. Again, some departmental Heads of Internal Audit may be required to report to the EC on aspects of their departments' control of expenditure of European funds.

1.1.2 the Head of Internal Audit should advise the Accounting Officer on the content of the Terms of Reference and should regularly consider whether any amendment is required.

1.2 *Scope of work*

1.2.1 Internal Audit should fulfil its terms of reference by systematic review and evaluation of risk management, control and governance which comprises the policies, procedures and operations in place to:

- a. establish, and monitor the achievement of, the organisation's objectives
- b. identify, assess and manage the risks to achieving the organisation's objectives
- c. advise on, formulate, and evaluate policy, within the responsibilities of the Accounting Officer
- d. ensure the economical, effective and efficient use of resources
- e. ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations
- f. safeguard the organisation's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption
- g. ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

1.2.2 Internal audit should devote particular attention to any aspects of the risk management, control and governance affected by material changes to the organisation's risk environment.

1.2.3 If the Head of Internal Audit or the Audit Committee consider that the level of audit resources or the terms of reference in any way limit the scope of internal audit, or prejudice the ability of internal audit to deliver a service consistent with the definition of internal auditing, they should formally advise the Accounting Officer, emphasising, the consequent limitations to the scope and value of the Head of Internal Audit's opinion and the risks which may arise as a result. If the Accounting Officer decides to accept any such limitation, this decision should be recorded formally. (See also Standard 6.1.10)

1.3 *Responsibilities in respect of other bodies*

1.3.1 The Head of Internal Audit should make provision for the derivation of appropriate opinion about:

- a. control over any subsidiary bodies
- b. the adequacy of the arrangements for internal audit in any subsidiary bodies (see also Standard 10.1)
- c. control in inter-departmental or cross-cutting systems
- d. control of contractors or service providers where that control is material to the achievement of organisational objectives.

1.3.2 Internal Audit should decide whether to conduct the work to derive the required opinions themselves or rely on the opinions provided by other auditors.

1.3.3 The Head of Internal Audit should advise on the provision of relevant access rights in the drafting of contracts let by the organisation.

1.4 *Fraud*

1.4.1 Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud will be detected. Internal audit should not have responsibility for the prevention or detection of fraud. However internal auditors should be alert in all their work to risks and exposures that could allow fraud.

1.4.2 Managing the risk of fraud is the responsibility of line management. Line management may establish a functionally independent fraud detection and prevention organisation. Where they establish a separate fraud unit, the relationship between this organisation's head and the Head of Internal Audit should be formally defined.

1.4.3 The Head of Internal Audit should arrange to be informed of all suspected or detected fraud so that they can consider the adequacy of the relevant controls, evaluate the implication of the fraud on their opinion of the risk management, control and governance, and consider making recommendations to line managers regarding any need for more detailed investigation and improvement in control.

2. INDEPENDENCE

2.1 *The principles of independence*

2.1.1 Internal audit should be sufficiently independent of the activities which it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. They should have no executive responsibilities.

2.1.2 Accountability for the response to the advice and recommendations of internal audit lies with the line managers who either accept and implement the advice or formally reject it. Audit advice and recommendations are without prejudice to the right of internal audit to review the relevant policies, procedures and operations at a later date.

2.2 *Organisational independence*

2.2.1 Internal audit is primarily a service to, and should report directly to the Accounting Officer. Internal audit may also have additional or secondary reporting lines to other Accounting Officers for the audit of cross cutting projects or to external bodies in cases where internal audit is appointed for the delivery of compliance and other assurances required by regulators or other authorities.

2.2.2 The Accounting Officer should be advised on the discharge of their responsibilities in respect of internal audit by their Audit Committee. In particular (amongst its other responsibilities), the Audit Committee should advise on internal audit in accordance with Standard 3.2. The Audit Committee should not obstruct the Head of Internal Audit from having direct access to the Accounting Officer (see Standard 9.1.6).

2.2.3 The Accounting Officer should make appropriate arrangements for the routine provision and management of the budget and resources of internal audit (including staff appraisal arrangements) without prejudice to the direct accountability of internal audit to the Accounting Officer. These arrangements will normally involve delegation of these particular responsibilities to the Principal Finance Officer.

2.3 *Status of the Head of Internal Audit*

The Head of Internal Audit should be graded with sufficient status to facilitate the effective discussion and negotiation of the results of internal audit work with senior management in the organisation. Evaluation tools used to grade the post should give due weight to the influence of the Head of Internal Audit on the risk management, control and governance of the organisation.

2.4 *Independence of individual auditors*

2.4.1 Individual auditors should have an impartial, unbiased attitude, characterised by integrity and an objective approach to work, and should avoid conflicts of interest. They should not allow external factors to compromise their professional judgement.

2.4.2 Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had executive responsibility, or in which they have provided consultancy advice. Auditors should not be assigned to assurance work in business areas where they have had an executive or other involvement, and where the Head of Internal Audit deems that this may impair their objectivity, until a suitable period has elapsed. The Head of Internal Audit should develop appropriate guidelines for determining the duration of such periods.

2.4.3 Long-term responsibility for the audit of a particular aspect of an organisation can also affect independence; assignment of ongoing audit responsibilities should be rotated from time to time.

2.5 *Independence of audit contractors*

Objectivity could be impaired if an audit contractor also provides other services to the organisation. Steps should be taken to avoid or manage such conflicts of interest.

2.6 *Declaration of conflict of interest*

2.6.1 Individual auditors should declare any conflicts of interest arising from audit work assigned to them by the Head of Internal Audit. Such potential conflicts of interest include previous executive or consultancy responsibilities and personal relationships with staff with current executive responsibilities.

2.6.2 Internal audit should plan the allocation of audit work to minimise the risk of conflicts of interest whenever possible.

3. AUDIT COMMITTEES

This Standard only encompasses internal audit issues and does not define the full role or constitution of an Audit Committee.

3.1 Principles of the Audit Committee

The “Policy Principles for Audit Committees in Central Government”⁵ provide that the Accounting Officer should establish an Audit Committee unless there are clearly identified reasons for the decision not to.

3.2 Internal Audit issues on which the Accounting Officer should seek the Audit Committee’s advice

The Accounting Officer should ask the Audit Committee to advise them on:

- a. the skill, experience and competency requirements for the post of the Head of Internal Audit
- b. the terms of reference for internal audit
- c. the effectiveness of the internal audit strategy and periodic plan in addressing the organisation’s risks
- d. the resourcing of internal audit
- e. the periodic work plans of internal audit, and material changes to these plans, the Head of Internal Audit’s annual and interim audit report(s) and any implications arising from their findings and opinion
- f. the arrangements for and the results of quality assurance processes
- g. the adequacy of management response to internal audit advice and recommendations.
- h. the arrangements made for co-operation between internal audit, external audit and other review bodies.

⁵ Published by HM Treasury - December 2000

3.3 The Head of Internal Audit's relationship with the Audit Committee

3.3.1 The Head of Internal Audit should attend Audit Committee meetings unless, exceptionally, the Audit Committee decides they should be excluded from either the whole meeting or particular agenda item(s). The reasons for any such exclusion should be made known to the Accounting Officer.

3.3.2 The Head of Internal Audit should have a right of access to the Chair of the Audit Committee to discuss any issues they wish to raise.

4. RELATIONSHIPS WITH MANAGEMENT, OTHER AUDITORS AND OTHER REVIEW BODIES

4.1 Principles of good relationships

Heads of Internal Audit should co-ordinate internal audit plans and activities with line managers, other internal auditors, external audit and other review agencies to ensure the most effective audit coverage is achieved and duplication of effort is minimised.

4.2 Relationships with management

4.2.1 Internal Audit provides a service to management. Its strategy, planning and delivery should aim to maximise the value added for management without jeopardising internal audit's responsibilities to the Accounting Officer.

4.2.2 Management and staff at all levels of the organisation should have complete confidence in the integrity, independence and capability of internal audit. The relationship between internal auditors and line managers is a privileged one, and information gained in the course of audit work should remain confidential to those with a legitimate interest within the organisation.

4.2.3 Co-operative relationships with line management enhance the ability of internal audit to achieve its objectives effectively. Audit work should be planned in conjunction with management as far as possible, particularly in respect of the timing of audit work (except where unannounced visits are essential to the achievement of the audit objectives).

4.2.4 When fraud is suspected or detected, decisions to involve external agencies such as the police should be taken by line management. If internal audit does not consider that line management have made appropriate decisions in this respect, this should be reported internally to the Accounting Officer.

4.3 Relationships with other internal auditors

Where internal auditors need to work with internal auditors of another organisation (for example, in interdepartmental systems or cross cutting projects), the roles and responsibilities of each party should be agreed and endorsed by each Accounting Officer. Whenever possible agreement to joint working or to placing professional reliance on work carried out by one party should be sought.

4.4 *Relationships with external auditors*⁶

4.4.1 The Head of Internal Audit should seek to meet regularly with the external auditor to consult on audit plans, discuss matters of mutual interest, discuss common understanding of audit techniques, methods and terminology, and to seek opportunities for co-operation in the conduct of audit work. In particular, Heads of Internal Audit should offer the external auditor the opportunity to rely on their work where appropriate, provided this does not prejudice Internal Audit's independence.

4.4.2 In any case of conflict with the external auditor, the Head of Internal Audit will consult with, or refer the matter to, the Accounting Officer.

4.5 *Relationships with other review bodies*

4.5.1 Where other assurance and review bodies such as management inspection or compliance teams are in place, internal audit should look for opportunities to gain assurance from, and place reliance on, their work. If it is intended to place formal reliance on work by such bodies, an appropriate audit or quality assurance exercise should be carried out to ensure that each body's work is carried out to a suitable standard to enable reliance.

4.5.2 The Head of Internal Audit should establish a means to gain an overview of other assurance providers' work to enable them to identify and consider individual or common material issues or emerging themes. If appropriate, they should be reported to the Accounting Officer.

⁶Detailed guidance on co-operation between internal and external auditors is contained in a good practice guide published jointly by the National Audit Office and HM Treasury

5. STAFFING, TRAINING AND DEVELOPMENT

5.1 *Principles of staffing, training and development*

Internal audit should be appropriately staffed in terms of numbers, grades, qualification levels, and experience, having regard to its objectives and to these standards. Internal auditors should be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme⁷.

5.2 *The Government Internal Audit Certificate*

5.2.1 The Government Internal Audit Certificate (GIAC) defines the minimum level of skill, knowledge and experience level required of an internal auditor⁷.

5.2.2 The Head of Internal Audit should be both GIAC-qualified and have a wide experience of management.

5.2.3 All internal audits should be led or supervised by internal auditors who hold the GIAC.

5.3 *Staffing the Internal Audit Unit*

5.3.1 The Head of Internal Audit is responsible for ensuring that they have access to the full range of knowledge, skills, qualifications and experience to meet the unit's audit objectives and these standards. In addition to internal audit skills, the Head of Internal Audit should specify any other professional skills which may be needed by the internal audit unit. They should also make provision for appropriate administrative support.

5.3.2 The Head of Internal Audit is responsible for recruiting staff with the appropriate intellectual qualities, personal attributes, and qualifications (or perceived ability to undertake professional training).

5.3.3 The Head of Internal Audit may appoint non GIAC-holders to the internal audit unit where they deem such appointees' specialist knowledge, training and experience enhances the organisation's overall audit capability, and does not jeopardise its compliance with these standards.

⁷ Detailed guidance on training requirements for Internal Auditors in central government is contained in the "Internal Audit Training and Development Handbook" published by HM Treasury

5.3.4 The Head of Internal Audit should set criteria for the appointment of the more senior staff in the internal audit unit based on demonstration of training and experience in accordance with the competencies framework in the “Internal Audit Training and Development Handbook”.

5.4 *Continuing Professional Development*

5.4.1 All internal auditors should undertake a programme of continuing professional development to maintain and develop their skills. They should maintain a record of such training activities.

5.4.2 Heads of Internal Audit should ensure that appropriate provision is made for maintaining and developing the competence of audit staff. They should monitor the ongoing training activity of all staff in their internal audit unit.

OPERATIONAL STANDARDS

6. AUDIT STRATEGY

6.1 *Developing the internal audit strategy*

6.1.1 The Head of Internal Audit should develop and maintain a strategy for providing the Accounting Officer, economically and efficiently, with objective evaluation of, and opinions on, the effectiveness of the organisation's risk management, control and governance arrangements⁸. The Head of Internal Audit's opinions are a key element of the framework of assurance the Accounting Officer needs to inform their completion of the annual Statement of Internal Control (SIC)⁹.

6.1.2 The strategy should also aim to add value for the organisation's line managers by providing them with audit analyses, findings and recommendations. In addition, where Internal Audit judge it appropriate, they can offer consultancy to support management in implementing the recommendations.

6.1.3 The strategy should be developed to meet the audit needs of the organisation, as assessed by the Head of Internal Audit, using the organisation's objectives and risk assessment as a primary resource.

6.1.4 The strategy should include provision for the Head of Internal Audit to consider, at least annually, the adequacy of the organisation's risk assessment and, if necessary, make recommendations for its review.

6.1.5 The strategy should include a systematic and prioritised review of how effectively the organisation's risks are managed by its policies, procedures and operations.

6.1.6 The Head of Internal Audit should consider any risk which they think may be material to the organisation's risk management, control and governance, even if it is not included in management's risk priorities.

6.1.7 The strategy should establish the resources and skills required for its delivery.

6.1.8 The strategy should describe the audit techniques selected as the most effective for delivering the audit objectives.

⁸ Where the Head of Internal Audit must also report to another Accounting Officer or to a third party (see Footnote 4) the strategy should also set-out how this requirement is to be met, including the timing of any such reports.

⁹ The Statement of Internal Control requires Accounting Officers to acknowledge their personal responsibility for the effective governance of their organisation; to confirm that they have, within the period covered by the Statement of Internal Control, reviewed the adequacy and effectiveness of the controls, and that any material weaknesses identified by the review have been addressed.

6.1.9 The strategy should set out the relative allocation of audit resources between assurance work and consultancy work. The exact allocation will be determined in the periodic plans.

6.1.10 The strategy should be approved by the Accounting Officer. This approval should include acceptance of risks or other areas of potential audit coverage which cannot be resourced, and identification of consequent residual risk exposure. The Accounting Officer should be advised by the Head of Internal Audit that they are responsible for that residual exposure, (see also Standard 1.2.3).

6.2 *Developing the periodic audit plans*

6.2.1 Internal Audit should prepare periodic work plans, designed to implement the audit strategy, for approval by the Accounting Officer.

6.2.2 The periodic plans should set out details of the assignments to be carried out in the period covered by the plan, providing sufficient detail for the Accounting Officer and management to understand the assignments' purpose and scope. They should establish the broad resources and skills required for each assignment, and should set relative priorities for each assignment. These periodic plans should be approved by the Accounting Officer.

6.2.3 These periodic audit plans should be kept under review to identify any amendment needed to reflect changing priorities and emerging audit needs. They should make provision for an element of contingency to accommodate audit assignments which could not have been reasonably foreseen. Material changes to the periodic audit plans should be approved by the Accounting Officer.

7. MANAGEMENT OF AUDIT ASSIGNMENTS

7.1 *Planning*

7.1.1 For each audit assignment a detailed plan should be prepared and discussed with relevant line managers. These plans should establish detailed objectives for the assignment, the level of assurance that management wishes to derive from the opinion to be delivered, resource requirements, audit outputs and target dates. They should set out:

- a. the scope and objectives and timing of the work to be done, allocating Internal Audit resources and establishing their targets
- b. any requirements for participation by line management including supplying IT systems or other data to the auditors
- c. the schedule and timing of the assignment
- d. to whom the assignment findings will be disclosed (without prejudice to the right of disclosure of all audit findings to the Accounting Officer). For audits of cross cutting projects, the assignment plan should clearly identify the reporting lines to each Accounting Officer involved.

7.1.2 Internal Audit should seek a “sponsor” for each assignment. This will normally be the manager with overall responsibility for the business risk area to be audited.

7.1.3 Assignment plans should be agreed with the sponsor before work is done, and the agreement recorded. They should take account of any concerns of the sponsor about aspects of the policies, procedures and operations within the area to be audited. Any material objection to the assignment plans which cannot be resolved by negotiation should be referred to the Accounting Officer.

7.2 *Approach*

7.2.1 Assignments intended to provide an audit opinion should be approached using a risk based systematic approach which should clearly:

- a. identify and record the objectives, risks and controls
- b. establish the congruence of the objectives with higher level corporate objectives
- c. evaluate management’s risk analysis, taking account of their acceptance of specific risks
- d. evaluate the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose

- e. identify any instances of over-control
- f. evaluate the impact of any decision by management to accept risk(s) rather than transfer or control them
- g. determine an appropriate strategy to test the effectiveness of risk management and controls
- h. arrive at conclusions and report, making recommendations as necessary and providing an opinion on the effectiveness of risk management and control in the audited area.

7.2.2 The scope and objectives, timing, and reporting arrangements should be defined and agreed for consultancy assignments in the same way as for assurance assignments. The objectives should make it clear that the Internal Auditors' involvement is in a consultancy role. The Head of Internal Audit will reserve the right to audit any risk management, control and governance processes developed with Internal Audit acting in its consultancy role.

7.2.3 Internal Auditors should apply the risk-based systematic audit approach by independent acquisition and examination of relevant evidence or by using risk and control evaluation methods¹⁰. At each stage of the assignment, auditors should consider what specific audit work needs to be conducted or to what extent review of evidenced management activity is sufficient to support an independent and objective audit opinion.

7.2.4 Audit opinion can also be derived by the use of supplementary audit techniques and approaches¹¹.

7.2.5 The Head of Internal Audit should develop local policies for the way in which assignment level opinion will be expressed, including definition of any terms of quantification.

7.2.6 Auditors should obtain and record sufficient relevant evidence to support their conclusions and to demonstrate the adequacy of evidence obtained to support professional judgements.

7.2.7 Internal Audit should review their findings with the sponsor, making recommendations for dealing with any weaknesses and offering consultancy support if appropriate.

7.2.8 The Head of Internal Audit should inform the Accounting Officer of any remaining material weaknesses. The Head of Internal Audit should develop standards and retention requirements for all audit records and documentation, whether they are held on paper or electronically. They should control access to audit records and should obtain the approval of relevant management before releasing records to external parties (except where the National Audit Office has a right of access).

¹⁰ Such methods include Control And Risk Self Assessment

¹¹ The full range of such techniques available to the internal auditor are described in the GIAM Best Practice guides which support these Standards

7.3 *Follow Up*

7.3.1 Internal Audit should follow-up assignments. Follow-up will be a review of the effectiveness of management's response to assignments' findings and recommendations. The follow-up findings should be reviewed with the sponsor before being reported.

7.3.2 The Head of Internal Audit should develop escalation procedures for any management responses which they judge to be inadequate in relation to the identified risk. These procedures should ensure that the risks of not taking action have been understood and accepted at a sufficiently senior management level.

7.3.3 Where follow-up reveals a change in the audit opinion, this change should be reported to the sponsor.

8. DUE PROFESSIONAL CARE

8.1 *Principles of due professional care*

8.1.1 Due professional care is the care and skill that a reasonably prudent and competent internal auditor will apply in performing their duties.

- Due care is working with competence and diligence. It does not imply infallibility or extraordinary performance.
- Due professional care is the use of audit skills and judgement based on appropriate experience, training (including continuing professional development), ability, integrity and objectivity.

8.1.2 Due professional care should be appropriate to the objectives, complexity, nature and materiality of the audit being performed.

8.1.3 Due professional care is achieved by adherence to these standards.

8.2 *Conduct of the individual auditor*

Individual auditors are responsible for ensuring that they conduct their own work with due professional care. They should:

- a. be fair and not allow prejudice or bias to override objectivity
- b. declare any conflicts of interest
- c. not accept any gifts, inducements, or other benefits from employees, clients, suppliers or other third parties
- d. consider and document the work needed to achieve audit objectives and the work which they perform in the course of an audit
- e. consider and document the management or other criteria which they use in evaluation of audit findings
- f. use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions
- g. be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, lack of economy, ineffectiveness, failure to comply with management policy, and conflicts of interest

- h. have sufficient knowledge to identify indicators that fraud may have been committed
- i. disclose any indicators identified that fraud may have been committed and recommend any further investigation which may be appropriate
- j. disclose all material facts known to them which if not disclosed could distort their reports or conceal unlawful practice
- k. disclose in reports any non-compliance with these standards
- l. not use information which they obtain in the course of their duties for personal benefit or gain.

8.3 *Organisational arrangements for due professional care*

8.3.1 The Head of Internal Audit should develop a programme of review to ensure that due professional care is achieved. This will principally be achieved through quality assurance methodologies (see Standard 10).

8.3.2 The Head of Internal Audit should ensure that appropriate processes are available for individual auditors to disclose any suspicions of fraud or improper conduct.

8.3.3 The Head of Internal Audit should make provision in their plans for the basic training and continuing professional development of all internal audit staff, including themselves (see Standard 5).

9. REPORTING

9.1 *Principles of reporting*

9.1.1 The Head of Internal Audit should determine the way in which audit findings will be reported, subject to the provisions of these standards and the requirements of the Accounting Officer and any third-parties (see Footnote 4).

9.1.2 The Head of Internal Audit should set local standards for all reports.

9.1.3 Internal Audit should agree with report recipients the form and medium of those report(s), without prejudice to Standards 9.1.1 and 9.1.2.

9.1.4 All audit findings should be promptly reported to the sponsor.

9.1.5 A written audit report should be issued to the sponsor, at the close of each individual audit assignment undertaken in accordance with Standard 9.2.

9.1.6 The Head of Internal Audit should provide a written report to the Accounting Officer timed to support their Statement of Internal Control.

9.1.7 The Head of Internal Audit should be entitled to report any risk management, control or governance issue directly to the Accounting Officer.

9.2 *Assignment recording and reporting*

9.2.1 Internal Audit's records of each assignment should include:

- a. the objectives and scope of the assignment
- b. how these objectives have been achieved
- c. a description of the objectives of the business area covered by the assignment
- d. the risks, controls and all other material factors examined by the assignment; together with the evaluation criteria employed by the auditors (including an explanation of criteria formulated by the auditors rather than by management)
- e. an evaluation of the effectiveness of the risk management, disclosing weaknesses and non-effectiveness, over-control and poor value-for-money
- f. the opinion given
- g. any recommendations for improvement

- h. any areas of disagreement between the auditor and management which cannot be resolved by discussion
- i. disclosure of any relevant non-compliance with any of these standards in the conduct of the audit and the reasons for the non-compliance
- j. any indicators of fraud which may have been detected
- k. a record of how all these have been reported to the sponsor.

9.2.2 The Head of Internal Audit should set standards for reporting and should make arrangements for the review and approval of reports by audit management before issue.

9.2.3 A written report or reports should be issued to the sponsor at the conclusion of the assignment, encompassing at least c, d, e, f and g from 9.2.1 above. Any audit findings presenting material concerns should be reported to the sponsor as soon as possible.

9.2.4 Reports should be clear, concise, and constructive. They should be issued promptly and within laid down timescales.

9.2.5 Reports should be security classified in accordance with organisational policies and with the material covered by the report to avoid unauthorised disclosure of material which would otherwise be subject to a security classification.

9.2.6 Reports should not be issued to third parties without the knowledge of relevant management.

9.2.7 In the event of a material error being discovered in a report this should be corrected and communicated to all who received copies of the report.

9.3 Annual reporting and presentation of audit opinion

9.3.1 The Head of Internal Audit's formal annual report to the Accounting Officer should present their opinion of the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. It should also:

- a. disclose any qualifications to that opinion, together with the reasons for the qualification
- b. present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies and accredited by Internal Audit
- c. draw the Accounting Officer's attention to any issues the Head of Internal Audit judges particularly relevant to their preparation of the Statement on Internal Control
- d. compare work actually undertaken with the work which was planned and summarise performance of the internal audit function against its performance measures and criteria

- e. comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

9.3.2 In addition to the formal annual report, the Head of Internal Audit should make arrangements for interim reporting to the Accounting Officer in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the formal annual report. The Head of Internal Audit should also provide information required by the Accounting Officer or Audit Committee on an ad hoc basis.

10 QUALITY ASSURANCE

10.1 Principles of Quality Assurance

10.1.1 The work of internal audit should be controlled at each level of operation to ensure that a continuously effective level of performance, compliant with these standards, is being maintained.

10.1.2 The Head of Internal Audit should develop a quality assurance programme designed to gain assurance by both internal and external review that the work of internal audit, including internal audit within their organisation's subsidiary bodies, is compliant with these standards and achieves its objectives, and to sustain a commentary on compliance with these standards in the annual audit report.

10.2 Management of internal audit

10.2.1 The Head of Internal Audit should establish policies and procedures in a local audit manual to guide staff. The form and content of this manual should be appropriate to the size of the audit unit. At a minimum the manual should include audit's role and responsibilities, documentation standards, local reporting standards and targets, training requirements and expectations, and audit performance measures and indicators.

10.2.2 The Head of Internal Audit should ensure that internal audit staff at all levels are appropriately supervised throughout all audit assignments to monitor progress, assess quality and coach staff. Supervision should include:

- a. ensuring compliance with these standards and local manuals
- b. providing suitable instructions at the outset of an audit
- c. approving audit objectives and work plans
- d. ensuring audits are conducted as planned or that variations are approved
- e. ensuring that appropriate audit techniques are used
- f. ensuring that audit findings, conclusions and recommendations are adequately supported by relevant and sufficient evidence
- g. ensuring that reports are accurate, objective, clear, concise and timely
- h. ensuring that work is achieved within resource budgets, or variations are approved.

10.2.3 The extent of supervision will depend on the experience and training of the individual auditor. Particular care should be taken to ensure that all work by trainee auditors is subject to comprehensive supervision and that trainee auditors never work without the supervision of a professionally qualified auditor.

10.2.4 The Head of Internal Audit should establish a set of performance measures and criteria for the internal audit function. Where there is a Service Level Agreement or a contract, the performance measures and criteria should be contained within it. These measures and criteria should be approved by the Accounting Officer.

10.2.5 Supervisors should regularly discuss auditors' performance with them and identify any areas in which improvement or training is required.

10.3 Internal quality review

10.3.1 The Head of Internal Audit should make provision for internal quality reviews to be undertaken periodically by experienced members of the internal audit function. These reviews should be undertaken at least every other year.

10.3.2 Internal reviews should appraise

- a. the quality of audit work
- b. the quality of supervision
- c. compliance with these standards
- d. compliance with the local audit manual
- e. the ways in which the internal audit function adds value to the organisation
- f. achievement of performance standards / indicators.

10.3.3 The sponsor for internal reviews should be the Head of Internal Audit who should include comment on the results of such reviews in the annual audit report. Following an internal quality review the internal auditors involved should develop an action plan for addressing any weaknesses identified.

10.3.4 Internal reviews should be conducted by reviewing a range of completed and current audit assignments.

10.3.5 Internal reviews should be conducted according to a review programme approved by the Head of Internal Audit, and should themselves be subject to the principles of objectivity and the acquisition of evidence contained in these standards.

10.4 External quality review

10.4.1 The Head of Internal Audit should make provision for external quality reviews to be commissioned periodically from appropriately qualified and independent reviewers. These reviews should be undertaken at least once every five years. External quality reviews should appraise:

- a. the terms of reference for the internal audit function
- b. the independence and objectivity of internal audit
- c. the efficiency and effectiveness of the approach to formulating the audit strategy and plans
- d. the quality of supervision
- e. compliance with these standards
- f. compliance with the local audit manual
- g. achievement of performance standards / indicators.

10.4.2 The sponsor for external quality reviews should be the Accounting Officer, who should discuss the results with the Head of Internal Audit. Following an external quality review the Head of Internal Audit should develop a programme for addressing any weaknesses identified and agree an action plan with the Accounting Officer. Progress against any such action plans should be reported upon in the annual audit report.

