

# **Internal Audit Standards**

Department of Public Expenditure & Reform  
November 2012

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# Foreword

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1. Following extensive consultation with Heads of Internal Audit, Audit Committees and Senior Management across the range of Vote Holders, the Department of Public Expenditure and Reform has determined that the Institute of Internal Auditors', The International Standards for the Professional Practice of Internal Auditing', should apply across all Departments and other Vote Holders.
2. This Foreword is to assist Heads of Internal Audit, Audit Committees and Accounting Officers in the Central Government area in the interpretation of these Standards - the benchmark against which the Internal Audit profession is measured.

## Governance and Reporting

### Governance

3. **Accounting Officers:** The responsibilities of Accounting Officers include control systems underpinning the management of resources and are they accountable to the Committee of Public Accounts. In the context of the Standards, the Accounting Officer is the 'executive of ultimate authority'.
4. **Secretaries General and Chief Executives:** In the management of Government Departments and Offices, the role of Secretary General, as Head of Department, is not dissimilar to the leadership role of the Chief Executive Officer (CEO), in the commercial sector, public or private. However, the respective roles of Secretaries General and CEOs differ with regard to accountability. Unlike CEOs, the Secretary General is not accountable to a Board of Directors – accountability is to his / her respective Minister. Secretaries General are usually Accounting Officers.
5. **Interpretation of the term 'Board':** Within the Standards, the term 'board' needs to be interpreted in the context of the governance arrangements within each organisation, as arrangements vary in structure and terminology depending on the nature of the organisation. In the majority of cases, i.e. government departments and offices, the term 'board' will generally refer to the Accounting Officer.
6. **Internal Audit:** Internal Audit has an important role in providing the Accounting Officer with assurances on the adequacy of control systems and procedures including internal controls, risk management and governance arrangements. In addition, Accounting Officers may access advice from Departmental Management Advisory Committees/Management Boards, Audit Committees, Risk and Finance Committees.
7. The role and responsibilities of Internal Audit have developed in line with key changes in the central government sector including:
  - The emergence of corporate governance and risk management systems as important elements of the accountability framework, and
  - A greater focus on the governance responsibilities and accountabilities of Accounting Officers and the measures needed to underpin this.
  - These changes are reflected in the Standards.
8. **Chief Audit Executive:** Within the Standards the term 'chief audit executive' will in most, if not all, Vote Holders, be the 'Head of Internal Audit' and will be a Civil Servant, or in some cases an external service provider, appointed or contracted to manage the internal audit function.

9. The chief audit executive should understand the role of Accounting Officer, Chief Financial Officer, Chief Executive, audit committee and other key officers or decision-making groups, as well as their inter-relationships. These key relationships are defined for each internal audit service within its charter.

## Reporting

10. **Reporting Relationships:** Accountability structures give rise to a requirement for reporting relationships individually between the Accounting Officer, Audit Committee and Head of Internal Audit. There are some differences in reporting relationships from Department to Department and a summary of current reporting relationships is as follows:

- The Accounting Officer, in most cases, appoints the Departmental Audit Committee and the Committee reports to the Accounting Officer.
- The HIA has direct access to the Accounting Officer on all matters as s/he sees fit.
- The Head of Internal Audit (HIA), as 'Chief Audit Executive', agrees the work programme of the Internal Audit Unit (IAU) with the Audit Committee and the skills and resources that are required.
- The Accounting Officer is advised by the Audit Committee on the work program of the IAU, the skills and resources required and the performance of the IAU. It is the responsibility of the Audit Committee to review progress on the audit plan and advise on resource allocation to the IAU.
- The Audit Committee is also responsible for the assessment of risk management strategy, governance arrangements and internal controls.
- The IAU derives its authority from, and operates in accordance with, a formal Charter approved by the Accounting Officer and the Audit Committee.
- The HIA may report to Management Advisory Committee/Management Board member for practical administrative purposes.

## Standards

11. **Implementation:** It is appreciated that the implementation of these Standards represents a significant challenge and will require strong commitment, attention and determination from IAUs, Audit Committees and Accounting Officers.

12. **Impact:** The Department of Public Expenditure and Reform is confident that the application of these Standards will support the delivery of effective internal audit practice in evaluating and improving the effectiveness of governance, control and risk management.

13. **Availability:** The Standards are available on the Department of Public Expenditure and Reform website ([www.per.gov.ie](http://www.per.gov.ie)) and the Government Accounting website ([www.govacc.per.gov.ie](http://www.govacc.per.gov.ie)).

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# 1 Introduction

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One of the key elements of good governance is an independent and objective internal audit service working to Internal Audit Standards.

The Internal Audit Standards comprise the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (International Standards) issued by the global professional body, the Institute of Internal Auditors (The IIA).

This document is addressed to Accounting Officers, Management board and audit committee members, Heads of Internal Audit, internal auditors and their customers, as well as external audit providers and other stakeholders. The International Standards have been adopted without amendment for the purposes of the practice of internal audit in the Central Government Sector and the new standards will be updated in line with any future revisions by the IIA.

In applying the Standards in this Sector regard needs to be had to the unique accountability structures that exist. The terms 'senior management and the board' as contained in the standards need to be interpreted as referring to the Secretary General/ Accounting Officer and the Audit Committee as appropriate in the circumstances. This is consistent with the definition of the board in the glossary.

The purpose of this Internal Audit Standards publication is to:

- define the nature of internal auditing within central government;
- set basic principles for carrying out internal audit in central government;
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The Internal Audit Standards apply both to in-house internal audit services, shared services and to outsourced arrangements and sit as part of a framework which includes;

- a) Endorsement – the Internal Audit Standards are endorsed for central government adoption,
- b) Definition – All internal audit assurance and consultancy work should fall within the scope of the Definition of Internal Audit (section 2 of the standards),
- c) Ethics – the Code of Ethics (section 3 of the standards) promotes an ethical, professional culture. It does not supersede or replace the Civil Service Code, and
- d) Standards – the standards are principles-focused, mandatory requirements consisting of:
  - Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, and
  - Interpretations, which clarify terms or concepts within the Statements.

# **2 Definition of Internal Auditing**

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”<sup>1</sup>

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# 3 Code of Ethics

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There are two essential components to the code:

- **Principles** – that are relevant to the profession and practice of internal auditing; and
- **Rules of Conduct** – that describe behavioural norms expected of internal auditors. The rules are an aid to interpreting the principles into practical application.

## Principles

### Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

### Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

### Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

### Competency

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

## Rules of Conduct

### Integrity

Internal auditors:

- shall perform their work with honesty, diligence and responsibility;
- shall observe the law and make disclosures expected by the law and the profession;
- shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation; and
- shall respect and contribute to the legitimate and ethical objectives of the organisation.

### Objectivity

Internal auditors:

- shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- shall not accept anything that may impair or be presumed to impair their

- professional judgement; and
- shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

### **Confidentiality**

Internal auditors:

- shall be prudent in the use and protection of information acquired in the course of their duties;  
and
- shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

### **Competency**

Internal auditors:

- shall engage only in those services for which they have the necessary knowledge, skills and experience;
- shall perform internal auditing services in accordance with the Government Internal Audit Standards, incorporating the International Standards for the Professional Practice of Internal Auditing; and
- shall continually improve their proficiency and the effectiveness and quality of their services.

# 4 Standards

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## Attribute Standards

### **1000 Purpose, Authority and Responsibility**

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

#### **Interpretation:**

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

#### **1000.A1**

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

#### **1000.C1**

The nature of consulting services must be defined in the internal audit charter.

### **1010 Recognition of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* in the Internal Audit Charter**

The mandatory nature of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* must be recognised in the internal audit charter. The chief audit executive should discuss the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* with senior management and the board.

## 1100 Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work.

### Interpretation:

**Independence** is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels.

**Objectivity** is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.

### 1110 Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

#### Interpretation:

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- Approving the internal audit charter,
- Approving the risk based internal audit plan,
- Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters,
- Approving decisions regarding the appointment and removal of the chief audit executive, and
- Making appropriate enquiries of management and the chief audit executive to determine whether there is inappropriate scope or resource limitations.

#### 1110.A1

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results.

### 1111 Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

### 1120 Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

#### Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

### **1130 Impairment to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

#### **Interpretation:**

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

#### **1130.A1**

Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

#### **1130.A2**

Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

#### **1130.C1**

Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

#### **1130.C2**

If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

## 1200 Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

### 1210 Proficiency

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

#### **Interpretation:**

Knowledge, skills and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations.

#### **1210.A1**

The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

#### **1210.A2**

Internal Auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

#### **1210.A3**

Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

#### **1210.C1**

The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

### 1220 Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

#### **1220.A1**

Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

**1220.A2**

In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

**1220.A3**

Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

**1220.C1**

Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement's objectives; and
- Cost of the consulting engagement in relation to potential benefits.

**1230 Continuing Professional Development**

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

## 1300 Quality Assurance and Improvement Programme

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

### **Interpretation:**

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the *Definition of Internal Auditing* and the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics*. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

## 1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

### 1311 Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic reviews performed through self-assessment or by other persons within the organisation with sufficient knowledge of internal audit practices.

### **Interpretation:**

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Periodic reviews are assessments conducted to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

### 1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organisation. The chief audit executive must discuss with the board:

- The need for more frequent external assessments; and
- The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.

### **Interpretation:**

A qualified reviewer or review team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of a review team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether a reviewer or review team demonstrates sufficient competence to be qualified.

An independent reviewer or review team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

### **1320 Reporting on the Quality Assurance and Improvement Programme**

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board.

#### **Interpretation:**

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the reviewer's or review team's assessment with respect to the degree of conformance.

### **1321 Use of Conforms with the International Standards for the Professional Practice of Internal Auditing**

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement programme support this statement.

#### **Interpretation:**

The internal audit activity conforms with the *International Standards* when it achieves the outcomes described in the *Definition of Internal Auditing*, *Code of Ethics* and *International Standards*.

The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

### **1322 Disclosure of Non-conformance**

When non-conformance with the *Definition of Internal Auditing*, the *Code of Ethics*, or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

## **Performance Standards**

### **2000 Managing the Internal Audit Activity**

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

#### **Interpretation:**

The internal audit activity is effectively managed when:

- The results of the internal audit activity's work achieve the purpose and responsibility
- included in the internal audit charter;
- The internal audit activity conforms with the *Definition of Internal Auditing* and the *Standards*; and
- The individuals who are part of the internal audit activity demonstrate conformance with the *Code of Ethics* and the *Standards*.

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

### **2010 Planning**

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

#### **Interpretation:**

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consultation with senior management and the board.

#### **2010.A1**

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

#### **2010.A2**

The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

#### **2010.C1**

The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.

### **2020 Communication and Approval**

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

### **2030 Resource Management**

The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

#### **Interpretation:**

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

### **2040 Policies and Procedures**

The chief audit executive must establish policies and procedures to guide the internal audit activity.

#### **Interpretation:**

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

### **2050 Coordination**

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

### **2060 Reporting to Senior Management and the Board**

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.

#### **Interpretation:**

The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

### **2070 External Service Provider and Organisational Responsibility for Internal Audit**

When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

#### **Interpretation:**

This responsibility is demonstrated through the quality assurance and improvement programme which assesses conformance with the *Definition of Internal Auditing, the Code of Ethics, and the International Standards*.

## 2100 Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

### 2110 Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information among the board, external and internal auditors and management.

#### 2110.A1

The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.

#### 2110.A2

The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

### 2120 Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

#### **Interpretation:**

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- Organisational objectives support and align with the organisation's mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the organisation's risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness. Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

#### 2120.A1

The internal audit activity must evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

**2120.A2**

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

**2120.C1**

During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

**2120.C2**

Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.

**2120.C3**

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

**2130 Control**

The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

**2130.A1**

The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

**2130.C1**

Internal auditors must incorporate knowledge of controls gained from consulting engagements into the evaluation of the organisation's control processes.

## 2200 Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.

### 2201 Planning Considerations

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity's risk management and control processes compared to a relevant control framework or model; and
- The opportunities for making significant improvements to the activity's risk management and control processes.

#### 2201.A1

When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

#### 2201.C1

Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. For significant engagements, this understanding must be documented.

### 2210 Engagement Objectives

Objectives must be established for each engagement.

#### 2210.A1

Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

#### 2210.A2

Internal auditors must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

#### 2210.A3

Adequate criteria are needed to evaluate controls. Internal auditors must ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management to develop appropriate evaluation criteria.

#### 2210.C1

Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.

#### 2210.C2

Consulting engagement objectives must be consistent with the organisation's values, strategies, and objectives.

## **2220 Engagement Scope**

The established scope must be sufficient to satisfy the objectives of the engagement.

### **2220.A1**

The scope of the engagement must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.

### **2220.A2**

If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

### **2220.C1**

In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

### **2220.C2**

During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

## **2230 Engagement Resource Allocation**

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

## **2240 Engagement Work Programme**

Internal auditors must develop and document work programmes that achieve the engagement objectives.

### **2240.A1**

Work programmes must include the procedures for identifying, analyzing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.

### **2240.C1**

Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.

## 2300 Performing the Engagement

Internal auditors must identify, analyze, evaluate and document sufficient information to achieve the engagement's objectives.

### 2310 Identifying Information

Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.

#### **Interpretation:**

Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

### 2320 Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

### 2330 Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

#### **2330.A1**

The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

#### **2330.A2**

The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

#### **2330.C1**

The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

### 2340 Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff is developed.

#### **Interpretation:**

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

## 2400 Communicating Results

Internal auditors must communicate the results of engagement.

### 2410 Criteria for Communicating

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans.

#### 2410.A1

Final communication of engagement results must, where appropriate, contain internal auditors overall opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

#### **Interpretation:**

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

#### 2410.A2

Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

#### 2410.A3

When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.

#### 2410.C1

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.

### 2420 Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete and timely.

#### **Interpretation:**

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

### 2421 Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

### **2430 Use of Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing***

Internal auditors may report that their engagements are conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, only if the results of the quality assurance and improvement programme support the statement.

### **2431 Engagement Disclosure of Non-conformance**

When non-conformance with the *Definition of Internal Auditing*, the *Code of Ethics* or the *Standards* impacts a specific engagement, communication of the engagement results must disclose the:

- Principle or rule of conduct of the *Code of Ethics* or Standard(s) with which full conformance was not achieved;
- Reason(s) for non-conformance; and
- Impact of non-conformance on the engagement and the communicated engagement results.

### **2440 Disseminating Results**

The chief audit executive must communicate results to the appropriate parties.

#### **Interpretation:**

The chief audit executive or designee reviews and approves the final engagement communication before issuance and decides to whom and how it will be disseminated.

#### **2440.A1**

The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

#### **2440.A2**

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must:

- Assess the potential risk to the organisation;
- Consult with senior management and/or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

#### **2440.C1**

The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

#### **2440.C2**

During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the board.

### **2450 Overall Opinions**

When an overall opinion is issued, it must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

#### **Interpretation:**

The communication will identify:

- The scope including the time period to which the opinion pertains.
- Scope limitations.
- Consideration of all related projects including the reliance on other assurance providers.
- The risk or control framework or other criteria used as a basis for the overall opinion.
- The overall opinion, judgement or conclusions reached.
- The reasons for an unfavorable overall opinion must be stated.

## **2500 Monitoring Progress**

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

### **2500.A1**

The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

### **2500.C1**

The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

## **2600 Resolution of Senior Management's Acceptance of Risks**

When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive must report the matter to the board for resolution.

# Glossary

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## **Add Value**

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

## **Adequate Control**

Present if management has planned and organised (designed) in a manner that provides reasonable assurance that the organisation's risks have been managed effectively and that the organisation's goals and objectives will be achieved efficiently and economically.

## **Assurance Services**

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

## **Board**

A board is an organisation's governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a non-profit organisation, or any other designated body of the organisation, including the audit committee to whom the chief audit executive may functionally report.

## **Charter**

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

## **Chief Audit Executive**

Chief audit executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards*. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title of the chief audit executive may vary across organisations.

## **Code of Ethics**

The *Code of Ethics* of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behaviour expected of internal auditors. The *Code of Ethics* applies to both parties and entities that provide internal audit services. The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.

## **Compliance**

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

## **Conflict of Interest**

Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

## **Consulting Services**

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

## **Control**

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

## **Control Environment**

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control.

The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

## **Control Processes**

The policies, procedures and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

## **Engagement**

A specific internal audit assignment, task, or review activity, such as an internal audit, control self assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

## **Engagement Objectives**

Broad statements developed by internal auditors that define intended engagement accomplishments.

## **Engagement Work Programme**

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

## **External Service Provider**

A person or firm outside of the organisation that has special knowledge, skill and experience in a particular discipline.

## **Fraud**

Any illegal act characterised by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

## **Governance**

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

## **Impairment**

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

## **Independence**

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

## **Information Technology Controls**

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure and people.

## **Information Technology Governance**

Consists of the leadership, organisational structures and processes that ensure that the enterprise's information technology supports the organisation's strategies and objectives.

## **Internal Audit Activity**

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation

accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

### **International Professional Practices Framework**

The conceptual framework that organises the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories (1) mandatory and (2) endorsed and strongly recommended.

### **Must**

The *Standards* use the word must to specify an unconditional requirement.

### **Objectivity**

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

### **Residual Risk**

The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

### **Risk**

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

### **Risk Appetite**

The level of risk that an organisation is willing to accept.

### **Risk Management**

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.

### **Should**

The *Standards* use the word should where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

### **Significance**

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

### **Standard**

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

### **Technology-based Audit Techniques**

Any automated audit tool, such as generalised audit software, test data generators, computerised audit programmes, specialised audit utilities and computer-assisted audit techniques (CAATs).