

Application of IIA Standards to Central Government- Information Note

1. One of the key elements of good governance is an independent and objective internal audit service working to Internal Audit Standards.
2. In November 2012, 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 determined that the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (IIA Standards) should apply across all Departments and other Vote Holders.
3. This document is to assist Heads of Internal Audit, Audit Committees and Accounting Officers in the Central Government area in the interpretation of the IIA Standards - the benchmark against which the Internal Audit profession is measured.

Governance and Reporting

Governance

4. **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 IIA Standards, the Accounting Officer is the 'executive of ultimate authority'.
5. **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.
6. **Interpretation of the term 'Board':** Within the IIA 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.
7. **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.
8. 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 IIA Standards.

9. **Chief Audit Executive:** Within the IIA 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.
10. 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

11. **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

12. The IIA Standards comprise of the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing as issued by the global professional body, the Institute of Internal Auditors (IIA).
13. The IIA Standards have been adopted without amendment for the purposes of the practice of internal audit in the Central Government Sector, and supersede the 1992 Internal Audit Standards.
14. 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.
15. The IIA Standards:
 - 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.

16. 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,
 - c) Ethics – the Code of Ethics 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.
17. **Implementation:** It is appreciated that the implementation of the IIA Standards represents a significant challenge and will require strong commitment, attention and determination from IAUs, Audit Committees and Accounting Officers.
18. **Impact:** The Department of Public Expenditure and Reform is confident that the application of the IIA Standards will support the delivery of effective internal audit practice in evaluating and improving the effectiveness of governance, control and risk management.
19. **Availability:** The IIA Standards are available on the IIA website (<http://iia.org.uk/resources/global-guidance/international-standards/>) or via the Department of Public Expenditure and Reform Government Accounting website (<http://www.govacc.per.gov.ie>).

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