



INTERNAL AUDIT STANDARDS

BAILE ÁTHA CLIATH
ARNA FHOILSIÚ AG OIFIG AN tSOLÁTHAIR.

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Introduction

The Department of Finance publication “Public Financial Procedures” outlines, in paragraph **4.13** (copy in Appendix), the role and scope of internal audit within Government Departments. The objective of this present document is to expand on the principles outlined in that paragraph and to set out additional guidelines relating in particular to the standards to be followed in implementing the internal audit function. Departments may also refer as appropriate to the standards and guidelines issued by the Irish District of the Institute of Internal Auditors, the Institute of Chartered Accountants in Ireland and other appropriate professional bodies.

Department of Finance
April 1992

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1. Role of Internal Audit

1.1 Internal Audit (IA) is an independent managerial function which measures and evaluates the effectiveness of the systems for internal check and control of operations.

1.2 The line management of a Department have primary responsibility for the internal control systems of that Department. The IA function does not absolve line management from this responsibility. Internal control systems are designed to ensure the proper, efficient, effective and economic operation of a Department including the prevention of fraud or irregularity. An internal auditor who discovers evidence of, or suspects, malpractice should report firm evidence, or reasonable suspicions, to the appropriate level of management. It is a management responsibility to determine what further action to take.

1.3 IA, as a service to the Departmental Accounting Officer, can evaluate the adequacy of internal control systems, and monitor the effectiveness of the application of those systems. As well as reporting deficiencies, IA can also make recommendations for improvements.

1.4 The Head of the IA Unit should work under the general direction of the Accounting Officer to whom he should have the right of direct access. In practice in day-to-day administration he may work to a senior officer nominated by the Accounting Officer. This would normally be at Assistant Secretary level where the Accounting Officer is of Secretary rank. To ensure impartiality, IA personnel should not have any executive responsibility for the functions which they review nor for the development or implementation of systems.

2. Scope

2.1 IA is designed to ascertain whether the systems, procedures and controls which management operates are being complied with and are capable of realising policy objectives in the most economic, efficient and effective way.

2.2 While the recommended scope for IA is set out below, it is ultimately the responsibility of each Accounting Officer to extend or curtail this as he/she sees fit. The proposed scope should be reviewed with the Department of Finance.

2.3 IA should encompass all aspects of a Department's functions and responsibilities including those bodies funded by it or otherwise under its aegis.

2.4 The IA Unit should, in general, adopt a systems-based approach, the principal objectives being to review and appraise

- (a) the design and operation of all systems and procedures (financial, managerial etc.) which are intended to control a Department's operations including those used by management to measure the extent to which programmes and other operations run by the Department are successful in the achievement of policy objectives;
- (b) the adequacy, reliability and integrity of the information being provided for decision-making and for accountability, and the extent to which this information is used;
- (c) the degree of compliance with (i) legislation (domestic and international e.g. EC) and other requirements laid down centrally (e.g. by the Department of Finance) and (ii) management plans, procedures and policies;
- (d) the acquisition and disposal of assets and the safeguarding of assets and interests from losses, including those arising from fraud, malpractice and irregularity; and
- (e) arrangements for the economic and efficient use of resources and for avoiding waste.

However, in some instances it may be desirable to employ a transaction-testing approach.

2.5 Throughout the civil service there are review groups forming an integral part of the control systems of the organisations in which they serve (e.g. O&M, OR, Management Services, policy/programme evaluation). The duties of these groups consist of a wide range of monitoring and problem-solving activities on behalf of the management to whom they report. The independence, nature, scope and objectives of internal audit distinguish it from such review groups. As with its responsibilities in regard to line management, the internal audit responsibility in the case of review groups (e.g. a programme evaluation unit) is to assess the systems and procedures to assure the Accounting Officer that a properly functioning process is in place and, if not, to indicate the nature of

the deficiencies and recommend corrective action. It is not the task of an IA Unit to carry out itself programme evaluations or other reviews proper to other functions in the organisation. As noted below (section 5), other units with a review function and the Office of the Comptroller and Auditor General (C&AG) should be consulted in planning the IA Unit's work programme.

3. Independence

3.1 To be effective, the IA Unit must be able to operate freely and objectively. This requires the full support of management, a sufficient organisational status for the function and the execution by the Unit of work in a manner which is, and is perceived to be, objective and professional.

Status

3.2.1 To achieve the desired status, the IA Unit should report to someone with sufficient authority to promote independence, to give broad audit coverage and to ensure appropriate action on audit recommendations. As indicated in section 1, the Head of the IA Unit should work under the general direction of the Accounting Officer to whom he should have direct access although in practice in day-to-day administration he may work to a senior officer nominated by the Accounting Officer.

3.2.2 The terms of reference should be written and should specify the IA Unit's authority, scope, the frequency of auditing and access to information, the rights of which should be comprehensive. They should also set out the IA Unit's position in the organisation. In this connection it would be well worthwhile setting out a written mandate or statement of purpose, authority and responsibility for the IA Unit, approved and accepted by the Accounting Officer. Such a charter or mission statement would help to clarify the nature and scope of the work of the IA Unit and leave no doubt as to management commitment to internal audit.

3.2.3 The Head of the IA Unit should annually submit his planned work schedule to the Accounting Officer for approval (see section 5). He should also explain any variations in this from previous plans. He should, on completion of his work, submit to the Accounting Officer a report on his findings and recommendations, stating the scope of his work and any limitations

on that scope. A suitably structured Audit Committee, chaired by the Accounting Officer, could act in this area. The Management Committee, meeting say twice a year for the specific purpose of internal audit review, could help to fulfil this role.

Objectivity

3.3.1 Internal auditors should maintain a professional and independent mental attitude in performing their duties. They should not subordinate their judgement to that of other people or be otherwise influenced by outside factors. They should not be put in a position which might compromise the quality of their work or their honest belief in that work.

3.3.2 They should not have operational responsibilities outside audit. If an internal auditor performs non-audit work it should be clearly understood that he/she is working separately from the IA Unit. Internal auditors should not audit anything for which they had responsibility unless a reasonable time has elapsed since their leaving that area of work.

3.3.3 They should not design, implement or operate control systems, though they may be asked for views on them before implementation. It should be generally recognised, however, that in providing such views, the internal auditor does not abrogate the right to criticise the systems following implementation.

3.3.4 IA staff should make the Head of the IA Unit aware of any possible conflicts of interest which may affect them. In this connection, staff should be rotated regularly from task to task.

3.3.5 Any apparent conflict of interest should be considered when supervising audit work and reporting audit results.

4. Professional Proficiency

4.1 Internal auditors should exercise due professional care and comply with professional standards in carrying out their work. This should be achieved by employing able and trained staff in sufficient numbers for the volume of work. In general, audit staff should be of EO grade or higher. (It may also be necessary from time to time to provide the unit with the necessary expertise to audit, for example, computer systems.) Having assigned such staff

to the Unit, a continuing programme of staff training and development, designed to update and refresh skills, should be implemented. The Department of Finance will provide advice, on request, on appropriate training and professional qualifications.

4.2 As well as good communications and interpersonal skills, the auditor must have initiative and a mature and commonsense outlook. At the higher levels in an IA Unit, organisational, management and supervisory skills are required in addition to technical knowledge.

4.3 The number of staff in any individual IA unit will depend on the volume and nature of work, as well as the skills required. The structure of each IA Unit should, therefore, vary in relation to these factors.

5. Planning

5.1 Internal auditing should be planned and controlled by the Head of the IA Unit, subject to overall review and approval by the Accounting Officer.

5.2 Planning should be documented and should include

- establishment and agreement with the Accounting Officer of audit scope and objectives,
- setting of priorities as regards areas to be audited,
- determining the requirements in terms of people, time and other resources.

5.3 There should be a long-term strategic plan as well as short-term annual plans and individual work plans. It is important that there is co-ordination of the required or expected results from auditing with the resources made available. Some of the factors to be taken into account in setting priorities between areas would be: relative size and complexity of organisation (including geographic spread), relative risk of and possible size of losses, results of previous audits and the changes in procedures or systems which have taken place in the recent past. In preparing plans there should be consultation with the C&AG and with other review units (e.g. Management Services, Operations Research) so as to eliminate any unnecessary duplication of work.

5.4 Plans, both long and short-term, should be reviewed regularly in the light of changing circumstances.

6. Performing the Audit

6.1 To perform the audit, the internal auditor must collect sufficient relevant and reliable information to enable him to evaluate the efficiency, effectiveness, economy and internal control systems of the unit he is auditing.

6.2 Firstly, he must study the regime under which the unit being audited operates, such as legislation and Government policies. He must find out what are its objectives, what specific directives on operations it is subject to and what authority and responsibilities have been delegated to it. He must then determine whether the unit's own policies conform with the regime, whether its objectives are appropriate to its remit and form an opinion as to whether the unit is likely to be effective in achieving its objectives.

6.3 Having reviewed the above policies, he must then plan his work programme so as to test and verify the actual working of the policies and internal control systems. Auditors should maintain not only annual but permanent audit files so as to be in a position to review changes in systems and policies following earlier IA reports. These files should contain working papers which show evidence of the planning of the audit, the tests carried out, the information obtained and the conclusions drawn from the evidence. The work should be supervised at all stages and evidence of this supervision should be on the files. Helpful techniques would include internal control questionnaires, statistical sampling and computer-assisted analysis.

6.4 Before drawing conclusions regarding weaknesses and making recommendations for improvements, the auditor should verify all relevant factual information with the unit he is auditing.

6.5 Audit working papers and files should remain under the control of the IA Unit with access to them available only through the Accounting Officer (or, where the Accounting Officer so arranges, the nominated senior officer).

7. Reporting

7.1 At the conclusion of each audit, the internal auditor should make a formal written report. This is not meant to preclude the

making of informal interim reports, oral or written, if these are felt to be desirable.

7.2 The contents of the report are the responsibility of the internal auditor and should not be subject to any external restrictions or impositions.

7.3 Within each Department, procedures should be established for considering and acting on the IA Unit's reports. Before a report is issued, the basic factual information contained in it and the conclusions and recommendations for improvements should be discussed with the relevant line management. In some circumstances the views of line management, or what they intend to do about weaknesses, may be included in the final report.

7.4 The report of the internal auditor should state the scope and purpose of the audit and give his findings and an audit opinion on the system. It should be objective, concise, constructive and timely.

7.5 A copy of each report should be sent to the Accounting Officer. He may decide that a summary of that report should be presented to him at the same time.

7.6 The internal auditor may decide to what management level other copies of the report should be circulated but he must ensure that it goes to a level which has sufficient authority to take corrective action.

7.7 It is the responsibility of management and not that of the IA Unit to take action when IA reports are issued. The internal auditor should follow up his report to see that either recommended corrective action is taken or that the Accounting Officer is aware of the lack of such action and the consequent risk involved.

7.8 At the end of each year, the Head of the IA Unit should submit to the Accounting Officer a report giving a summary of his activities for the year. This should include any major findings and any significant recommendations not yet dealt with.

8. Relationships

8.1 Senior management's attitude to IA will be reflected in the organisational status that they give it. This will in turn influence

the potential effectiveness of the function. The Head of the IA Unit, therefore, should always work under the general direction of the Accounting Officer and should have the right of direct access to him, while he may report to the nominated senior officer in the course of day-to-day administration.

8.2 It is important that units subject to audit have complete confidence in the integrity and independence of the internal auditor. Good relationships can be maintained with such units by being seen to be constructive and fair in dealing with them. Unless a surprise visit is part of the audit approach, prior arrangements for audit should always be made. Confidentiality must be maintained at all times. Audit reports should not be given to any other agency without the knowledge of the Head of the IA Unit.

8.3 Since management always retain primary responsibility for the adequacy of controls, they may from time to time set up review groups to monitor and advise on this. Close liaison should be maintained between the internal auditor and these groups, though one should not be regarded as a substitute for the other or duplicate work (see sections 2 and 5 above also). The internal auditor should be advised of any alterations being contemplated in controls and systems.

8.4 The internal auditor should be familiar with, and recognise, the difference between his role and allegiance and that of staff of the C&AG. Co-operation should be promoted through regular meetings and through the co-ordination of activities. Details of work done and copies of all formal reports should be made available to the C&AG. The C&AG can subject the internal audit function in any Department to review as part of any overall review of management control.

APPENDIX

Extract from “Public Financial Procedures”

Internal Audit

4.13 Internal audit is an independent appraisal within a Department which operates as a service to management and particularly to the Accounting Officer by measuring and evaluating the effectiveness of the internal control system. The range of internal audit activity should cover those controls established by management to carry out the Department’s business in an orderly and efficient manner, to ensure adherence to management policies and directives, to prevent waste, to safeguard assets and to secure as far as possible the completeness and accuracy of records. Internal audit is not an extension of, or a substitute for, line management who remain fully responsible for having appropriate and adequate internal control arrangements.

Accounting Officers should regularly review the internal audit process to ensure that they are getting the desired quality of assurance on the adequacy, reliability and efficiency of their Department’s internal control systems (including the Department’s controls relating to bodies under its aegis).

