



HM Government

# Government Functional Standard

## GovS 009: Internal Audit

Version: 2.0  
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**Approved**



This functional standard is part of a suite of management standards that promotes consistent and coherent ways of working across government, and provides a stable basis for assurance, risk management and capability improvement.

The suite of standards, and associated guidance, can be found at **GOV.UK/government/collections/functional-standards**.

Functional standards cross-refer to each other where needed, so can be confidently used together.

They contain both mandatory and advisory elements, described in consistent language (see the table below).

Term	Intention
shall	denotes a requirement: a mandatory element.
should	denotes a recommendation: an advisory element.
may	denotes approval.
might	denotes a possibility.
can	denotes both capability and possibility.
is/are	denotes a description.

The meaning of words is as defined in the Shorter Oxford English Dictionary, except where defined in the Glossary in Annex B.

It is assumed that legal and regulatory requirements are always met.

Version 2 of GovS 009 replaces version 1 and has the same purpose, scope and intent. The minor changes relate to general enhancements and the addition of section 5.4.5 on the Internal Audit report sharing protocol which has been published on GOV.UK.

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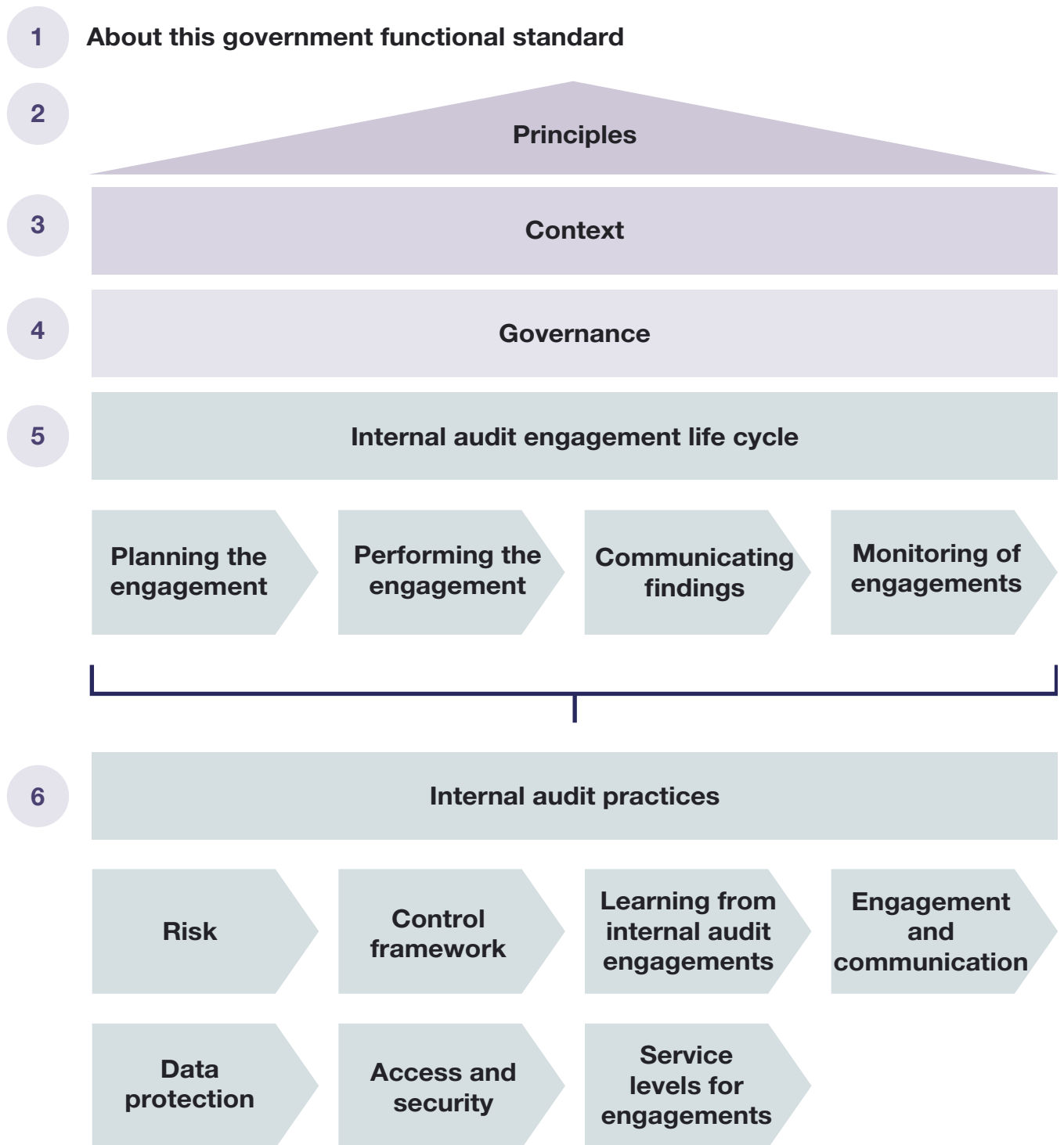
Produced by the Government Internal Audit Function

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# Contents

<b>1.</b>	<b>About this government functional standard</b>	<b>2</b>
1.1	Purpose of this government standard	2
1.2	Scope of this standard	2
1.3	Government standards references	3
<b>2.</b>	<b>Principles</b>	<b>3</b>
<b>3.</b>	<b>Context</b>	<b>4</b>
3.1	Introduction	4
3.2	Assurance: three lines model	4
3.3	Internal audit services	4
3.4	Independent external audit	4
3.5	The Government Internal Audit Agency	4
<b>4.</b>	<b>Governance</b>	<b>5</b>
4.1	Governance and Management Framework	5
4.2	Strategy and planning	6
4.3	Assurance of internal audit	8
4.4	Decision making	9
4.5	Roles and accountabilities	10
4.6	Other requirements	14
<b>5.</b>	<b>Internal audit engagement life cycle</b>	<b>15</b>
5.1	Overview	15
5.2	Planning the engagement	16
5.3	Performing the engagement	17
5.4	Communicating findings	17
5.5	Monitoring of engagements	18
<b>6.</b>	<b>Internal Audit Practices</b>	<b>20</b>
6.1	Overview	20
6.2	Risk	20
6.3	Control framework	21
6.4	Learning from internal audit engagements	22
6.5	Engagement and communications	22
6.6	Data protection	23
6.7	Access and security	23
6.8	Service levels for engagements	23
<b>A.</b>	<b>References</b>	<b>24</b>
<b>B.</b>	<b>Glossary</b>	<b>25</b>
<b>C.</b>	<b>Public sector internal audit standards</b>	<b>29</b>



**Figure 1** Structure and scope of this functional standard



# 1. About this government functional standard

## 1.1 Purpose of this government standard

The purpose of this government functional standard is to set expectations for internal audit activity to enhance the effectiveness and efficiency of governance, risk management and control in government organisations.

This standard provides direction and guidance for:

- permanent secretaries, directors general, and chief executive officers of arm's length bodies to ensure an environment exists which promotes this functional standard
- accounting officers, their senior leadership teams, and members of organisational boards, to provide an environment where internal auditors have authority to operate across the organisation, independent of executive leadership
- those responsible for the provision of internal audit services
- those delivering internal audit engagements
- sponsors and officers of internal audit services in organisations
- those responsible for taking action as a result of the findings from internal audits
- those undertaking external quality assessments of internal audit providers in government

## 1.2 Scope of this standard

This standard applies to the planning, delivery and management of internal audit activity:

- in government departments and their arm's length bodies
- delivered by civil servants, public servants, co-sourced and/or third-party providers or a combination of these
- regardless of the tools used for delivery
- including all internal audit services e.g. assurance, evaluation, compliance, advisory and consultancy, pre-inspection reviews

Internal audit activity is unrestricted in scope, including all areas of risk (such as fraud risk). This standard applies to all areas of internal audit work, except counter fraud and investigation services, which are covered by GovS 013, Counter Fraud.

An organisation, in the context of government functional standards, is the generic term used to describe a government department, arm's length body, or any other entity that is identified as being within scope of a functional standard.

This standard may be used by other public sector bodies, to support benchmarking and continuous improvement. In these circumstances, and when the standard is used in this way, mandatory elements in this standard may be treated as advisory.

The structure of this standard is shown in Figure 1 above.

### 1.3 Government standards references

The following standards are directly necessary for the use of this standard;

GovS 001, Government Functions

GovS 002, Project Delivery

GovS 005, Digital, Data and Technology

GovS 006, Finance

GovS 007, Security

GovS 008, Commercial

A functional standard supports achievement of the outcomes sought by an organisation. It sets expectations for what needs to be done and why, relating to the functional work within its scope, in order to achieve those organisational outcomes.

Note: For expectations relating to management of a function across government, and management of functional standards, please see GovS 001, Government Functions.

## 2. Principles

Those sponsoring or undertaking internal audit engagements shall ensure that:

1. audit objectives are aligned to government policy, and organisational objectives and risks
2. there is appropriate access for internal auditors to discharge their duties, including the ability to communicate findings without hindrance
3. work is assigned to people with the required capability, capacity, proficiency and due professional care
4. internal audit findings are captured, shared and used to promote improvement in the efficiency and effectiveness of the organisation and value for money
5. public service codes of conduct and ethics and those of associated professions are upheld

## 3. Context

### 3.1 Introduction

This section provides essential background information for the use of this functional standard.

### 3.2 Assurance: three lines model

Assurance is a general term for the confidence that can be derived from objective information over the successful conduct of activities, the efficient and effective design and operation of internal control, compliance with internal and external requirements, and the production of insightful and credible information to support decision-making [1]. Internal audit is an essential component of assurance within and across government. Assurance is carried out on at least three levels:

- First line roles: Provision of products/ services to clients; managing risk
- Second line roles: Expertise, support, monitoring and challenge on risk-related matters
- Third line roles: objective assurance and advice on all matters related to the achievement of objectives

Note: A full explanation of the three lines model is given in the Institute of Internal Auditor's Three Lines Model [2].

### 3.3 Internal audit services

Internal audit services provide independent and objective assurance and consulting to organisations, by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and controls.

Internal audit services can be provided by the Government Internal Audit Agency, an embedded internal audit unit, or another internal audit service provider.

Government departments are responsible for ensuring that there are effective arrangements for governance, risk management and internal control in the arm's length bodies that they sponsor [3].

### 3.4 Independent external audit

The Comptroller and Auditor General leads the National Audit Office and is an officer of the House of Commons.

The Comptroller and Auditor General certifies the accounts of all government departments and many other public sector bodies and carries out value-for-money examinations that assess the economy, efficiency and effectiveness with which public money has been deployed in selected areas of public business.

Although the work of the National Audit Office is primarily conducted for the benefit of Parliament, it is often of significant benefit to the organisation.

### 3.5 The Government Internal Audit Agency

The Government Internal Audit Agency was established in 2015 as an independent agency of Her Majesty's Treasury, to provide a shared internal audit service to the UK government.

The move towards a single integrated internal audit service provider aims to increase efficiency and allow organisations to benefit from the agency's ability to share specialist audit skills and resources across government. A shared service also supports stronger identification and management of cross-government risk and assurance.

## 4. Governance

### 4.1 Governance and Management Framework

#### 4.1.1 General

Governance comprises prioritising, authorising, directing, empowering and overseeing management, and assuring and reviewing performance of internal audit.

A governance and management framework shall be defined and established across government for all organisations collectively, and within each organisation, which:

- complies with government and departmental policies and directives and with this standard
- is referenced from the respective Accounting Officer System Statement

#### 4.1.2 Governance requirements in an organisation

Organisations shall have an internal audit service that meets the requirements of this standard.

The governance of internal audit within an organisation shall be an integral part of that organisation's overall governance.

The sponsoring department should set requirements for internal audit services in arm's length bodies [3].

#### 4.1.3 The internal audit charter

An internal audit charter is a requirement of the public sector internal audit standards [5] and formalises the governance of internal audit within an organisation. Each organisation shall have an internal audit charter, endorsed by the organisation's board [6].

The internal audit charter should:

- define the internal audit service's purpose, authority and responsibility

- establish the internal audit service's position within the organisation
- define the scope of internal audit activities.

The internal audit charter should include, but not be limited to:

- internal audit's mission and purpose
- conformance with the public sector internal auditing standards [5]
- authority levels over scope, access and safeguarding information
- internal audit's independence and objectivity
- scope of internal audit activities
- responsibility for audit strategy, risk-based plans, coverage, resources, execution, amendments, communication and reporting
- quality assurance and improvement programme

The audit charter should be developed and maintained by the senior officer accountable for internal audit services in an organisation (see 4.5.9). Before being finalised, the charter shall be subject to approval by the accounting officer (see 4.5.3), supported by the organisation's audit and risk assurance committee (see 4.5.5).

The accounting officer, supported by the audit and risk assurance committee, should review the charter periodically, to ensure arrangements are appropriate and continue to support the organisation's needs.

#### 4.1.4 Annual internal audit opinion

The annual internal audit opinion supports the accounting officer by providing a professional judgement on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.





The senior officer accountable for internal audit services in an organisation shall provide an annual internal audit opinion and report to the organisation's audit and risk assurance committee, based on the results of individual engagements and other activities [5].

The annual opinion should:

- consider whether the risk appetite has been established and reviewed through the active involvement of the board
- assess whether risk appetite is embedded within the activities, limits and reporting of the organisation

The annual opinion should take into account the organisation's strategies, objectives, and risks (including risk appetite and risk tolerance) and the expectations of senior management, the board, and other defined stakeholders.

The annual opinion should be supported by sufficient, reliable, relevant, and useful information.

The annual opinion should be used by the organisation to inform the governance statement in its annual report.

## 4.2 Strategy and planning

### 4.2.1 Cross-government internal audit strategy

The senior officer accountable for internal audit across government should develop a cross-government internal audit strategy, in consultation with organisational representatives.

The cross-government strategy should draw upon priority areas and insights identified by Heads of Function and functional governance bodies. See also GovS 001, Government Functions across government.

### 4.2.2 Cross-government internal audit planning

Cross-government engagements identify common weaknesses across government where joint action might be appropriate, as well as good practice to enable organisations to understand how others respond to common challenges and learn from them.

Cross-cutting assurance activity shall be planned and conducted with the consent of relevant accounting officers.

Cross-government audit plans should be developed in consultation with those accountable for sponsoring and providing internal audit services in organisations, to draw out issues of mutual interest.

The Permanent Secretary of HM Treasury may add to the plan for cross-government audit work and authorise an audit from the cross-government plan [4].

The views of heads of functions and functional governance bodies should be sought and reflected in cross-government audit plans. See also GovS 001, Government Functions.

Cross-government engagements (involving two or more organisations) can be assurance engagements or consulting engagements.

Note: Cross-government engagements can involve: separate engagement with individual organisations, with common themes being drawn together subsequently; a cross-cutting engagement with a single report to involved parties, or separate reports to each organisation; or a bespoke report for senior leaders to inform strategic cross-government decision making.

### 4.2.3 Internal audit strategy for an organisation

The internal audit strategy for an organisation provides a statement of how the internal audit service should be developed and delivered in accordance with the internal audit charter (see 4.1.3), and how the annual plan (see 4.2.4) links to the organisation's objectives, risks and priorities.

The senior officer accountable for internal audit services in an organisation shall develop and communicate the internal audit strategy.

The senior officer accountable for internal audit services in an organisation shall submit the internal audit strategy to the audit and risk assurance committee for review.

The senior officer accountable for internal audit services in an organisation shall seek approval for the internal audit strategy from the accounting officer before being finalised.

The strategy informs annual or periodic planning, and should include:

- what internal audit should deliver and how
- measurement of performance against plan
- quality assurance arrangements
- a summary of the risk assessment
- reliance to be placed on other assurance providers (see 6.2.4)
- the rationale behind the plan, and its links to the organisation's objectives and priorities

### 4.2.4 Internal audit plan for an organisation

A plan sets out how objectives, outcomes and outputs are to be delivered in accordance with the strategy.

The senior officer accountable for internal audit services in an organisation shall develop and maintain an annual or periodic plan in consultation with the accounting officer and senior leadership, setting out intended internal audit activity to be undertaken in the period based on:

- priorities identified using a risk-based approach
- aligns with the strategies, objectives, and risks of the organisation
- adequate coverage of core systems
- management requests for assurance and consultancy work
- requirements for real time or embedded assurance (see 5.1.4)
- the funding required to implement the plan and where such funding is sourced

The audit plan shall be risk-based and fulfil the requirement to produce an annual internal audit opinion (see 4.1.4) and operate an effective assurance framework.

The audit plan should consider priority areas for cross-government audit work (see 4.2.2) identified by the senior officer accountable for internal audit across government (see 4.5.2).

The senior officer accountable for internal audit services in an organisation (see 4.5.9) shall submit the annual audit plan for approval by the accounting officer and then ratification by the audit and risk assurance committee.

The plan should be kept under review to ensure it remains current and reflects emerging risks and issues. Changes to the audit plan shall be approved by the accounting officer and then ratified by the audit and risk assurance committee.

An organisation's internal audit strategy and plan may be combined in one document.

#### 4.2.5 Progress reports

Audit plans should be monitored and reported against using appropriate milestones and performance criteria.

The senior officer accountable for internal audit services in an organisation is accountable for the preparation and quality checking of periodic progress reports to senior management and the audit and risk assurance committee on progress against plan.

Progress reports should include, but not be limited to:

- rationale for proposed changes to the plan
- results of engagements undertaken since last report including audit, consultancy and advisory services
- significant control weaknesses and breakdowns together with a robust root-cause analysis
- insights from real time or embedded assurance
- update on action tracking
- key trends, themes and good practice identified
- potential impact of external developments on the organisation
- areas where residual risk may be unacceptable to the organisation
- the performance and effectiveness of internal audit services, and changes to resource requirements

## 4.3 Assurance of internal audit

### 4.3.1 Overview

The purpose of assurance is to provide, through a systematic set of actions, confidence to senior leaders and stakeholders that work is controlled and supports safe and successful delivery of policy, strategy and objectives.

Internal audit service providers shall operate a defined and established quality assurance and improvement programme for internal audit activity.

The quality assurance and improvement programme shall include both internal and external assessments [5].

The senior officer accountable for internal audit services in an organisation shall communicate the results of the quality assurance and improvement programme to senior management and the board.

The results of the quality and assurance programme and progress against any improvement plans shall be reported in the organisation's annual report and in the annual internal audit opinion (see 4.3.4) provided to the accounting officer to support the organisation's governance statement.

Typically, assurance should be on at least three separate and defined levels including:

- specified quality checks undertaken at key points in the engagement by those responsible for management of internal audit engagements
- compliance and qualitative checks on a sample of completed engagements on a periodic basis by those responsible for quality assurance and improvement, including organisational feedback
- external quality assessments undertaken by independent assessors (see 4.3.4)

Activities should be integrated with the organisation's overall assurance framework [7].

Potential improvements should feed into an improvement programme appropriate to the value, complexity and risk profile of the organisation.

#### 4.3.2 Organisational assurance

Audit and risk assurance committees should consider the effectiveness of internal audit on a periodic basis. This should include how well the internal audit service:

- understands and keeps abreast of the increasing complexity of the relevant areas of public service delivery
- is respected, taken seriously and has strong relationships with key stakeholders within the business
- provides relevant, effective, evidence-based and pragmatic advice and recommendations and robust conclusions, drawing on experience of best practice to help improve public service delivery
- ensures that recommendations, which address their findings, are implemented in line with agreed timescales
- acts upon the findings of organisational satisfaction questionnaires and other internal quality assurance activity

#### 4.3.3 Internal assurance

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity.

Internal assessments shall include:

- ongoing monitoring of the performance of the internal audit activity
- periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices

#### 4.3.4 External assurance

An assessment of the adequacy of an organisation's internal audit service shall be conducted at least once every five years. The assessment should be done by an independent assessor (or assessment team) qualified in the professional practice of internal auditing and the external assessment process.

The external assessment should consider and report on conformance with the Public Sector Internal Audit Standards (see Annex C).

An appropriate organisational sponsor for the external assessment should be identified.

Note: The appropriate sponsor is likely to be the accounting officer or the chair of the organisation's audit and risk assurance committee.

The senior officer accountable for internal audit across government (see 4.5.2) shall define the framework for external quality assessments of internal audit in government.

The scope should be agreed by the organisational sponsor, and by the external assessor or assessment team.

The results of external assurance, including progress against resulting improvement plans, shall be reported on completion and included in the annual report of the internal audit service provider (see 4.3.1), and the annual report and opinion provided to the accounting officer to support the organisations governance statement.

### 4.4 Decision making

Decisions relating to internal audit engagements (including consulting and advisory) should be made and approvals given in a timely manner, in accordance with an organisation's governance and management framework. Government policy should be complied with. Decisions should be made by assessing options against



defined criteria and in consultation with stakeholders and subject matter experts.

Decisions within organisations might relate to:

- approving the audit charter
- approving the memorandum of understanding
- approving the audit strategy
- approving the annual plan
- approving terms of reference
- approving draft reports
- deciding actions to take in response to audits

Decisions should take account of:

- the risks and emerging issues of the organisation
- the organisation's risk maturity
- the strength of the control environment
- relevant board-level management information
- regular interaction between the organisation's senior leadership and the internal audit service
- the capacity and capability of internal audit resources. Where the senior sponsor for internal audit services in an organisation believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences shall be brought to the attention of the audit and risk assurance committee [5].

## 4.5 Roles and accountabilities

### 4.5.1 Overview

Roles and accountabilities shall be defined in the relevant governance and management framework and assigned to people with appropriate seniority, skills and experience. This includes, but is not limited to, the activities, outputs or outcomes they are responsible for, and the person they are accountable to.

### 4.5.2 Senior officer accountable for internal audit across government

The senior officer accountable for internal audit across government is accountable to HM Treasury for the development and oversight of a strategy for internal audit in government, and should:

- provide leadership and direction for improving internal audit practice across government
- adopt a single set of detailed professional standards, and drive continuous improvements in these standards [5]
- strengthen internal audit capability across government, including through external assurance (see 4.3.4)
- provide additional oversight and guidance to heads of internal audit across the function
- be involved in departmental head of internal audit appointments

Note: This role is done by the same person who leads the internal audit function across government, who currently reports to the second permanent secretary of HM Treasury. See also GovS 001, Government functions, which sets common expectations for managing government functions and functional standards.

### 4.5.3 Accounting officer

The permanent head of a government department is usually its principal accounting officer.

The principal accounting officer should generally appoint the most senior executive in the arm's length bodies within the department's ambit as an accounting officer.

An organisation's accounting officer is accountable (via a principal accounting officer where appropriate) to Parliament and the public for the stewardship of public resources, ensuring they are used effectively and to high standards of probity.

The accounting officer shall ensure there is appropriate internal audit provision in their organisation and should:

- use the work of internal audit to improve their organisation’s governance, risk management, internal control and performance
- ensure that lessons learned from cross-government audit are embedded in their management and risk frameworks
- take advice from the organisation’s audit and risk assurance committee as necessary (see 4.5.5)

#### 4.5.4 Organisation’s board

An organisation’s board supports ministers and senior officials in directing the business of the organisation in as effective and efficient way as possible, and to provide scrutiny, challenge and support, having regard to the organisation’s long-term health and success.

The organisation’s board and its committees shall ensure support for, and acceptance of, the undertaking of internal audit activity at all levels of the organisation. Requirements of the corporate governance in central government departments: code of practice [3] should be met.

Internal audit expertise and knowledge should support the board to ensure that lessons learned from audit are acted upon. The senior officer accountable for internal audit services in an organisation (see 4.5.9) should be invited to contribute to board meetings that cover governance, risk management and the control environment across the organisation(s).

#### 4.5.5 Audit and risk assurance committee

An audit and risk assurance committee shall be established to support an organisation’s board and accounting officer to review:

- governance
- risk management
- the control environment
- results of internal audit engagements
- internal audit opinion
- the integrity of financial statements and the annual report
- performance of the internal audit service
- external audit

The members of the committee shall be independent of the organisation, without executive responsibilities [6].

The chair of the committee should be a non-executive board member with relevant experience. There should be at least one other independent board member on the committee, plus other non-executive director members as necessary, to ensure the right level of skills and experience. The committee’s terms of reference should be published, and it should report to the board, annually on its work and how it has discharged its responsibilities.

The Accounting Officer and the Finance Director should routinely attend the Audit and Risk Assurance Committee [6].

Note: The Audit Committee Handbook provides guidance on how the committee should operate [6].

Judgements about the integrity of financial statements and the annual report should take account of GovS 006: Finance.

#### 4.5.6 Senior sponsor for internal audit services in an organisation

The senior sponsor for internal audit services in an organisation should be responsible for the oversight of the organisation's relationship with the senior officer accountable for internal audit services in an organisation. This role acts as an intelligent client for the organisation and should have the capability and capacity to advise and support those engaged in the activities defined in this standard.

The senior sponsor for internal audit services in an organisation is accountable to the accounting officer for:

- agreeing service levels (see 6.8)
- monitoring the effectiveness of the organisation's internal audit service
- acting as an escalation point for issues relating to the internal audit service
- identifying emerging risks and issues that should be incorporated into the internal audit plan
- requesting amendments to internal audit plans if changes are needed (see 4.2.4)
- promoting coordination, co-operation and communication

Note: A senior finance officer such as the chief operating officer or finance director usually undertakes this role, with free and unfettered access to the accounting officer.

#### 4.5.7 Senior sponsor for an internal audit engagement in an organisation

A senior sponsor should be appointed for each internal audit engagement in an organisation, including where the organisation is participating in cross-government engagements.

The senior sponsor for an internal audit engagement in an organisation is accountable to the senior sponsor for internal audit services in an organisation (see 4.5.6) for:

- agreeing the terms of reference of an audit engagement
- agreeing the report content, recommendations and their implementation for actions related to individual audit engagements (see 5.4),
- ensuring that agreed actions are sponsored by a member of the organisation's board

The senior sponsor for an internal audit engagement should ensure that the internal auditor has:

- unrestricted access to necessary records, assets, personnel and premises
- the authority to obtain such information and explanations as the auditor considers necessary to fulfil their responsibilities
- prompt access to information requested, including interviews with the organisation's staff, access to third party suppliers, and answers to queries raised during the audit engagement

The senior sponsor for an internal audit engagement may be supported by an individual or team. Appropriate staff resource should be allocated to support an audit engagement, enabling timely and effective provision of information, scheduling of interviews and responses to audit queries.

Note: The senior sponsor for an internal audit engagement is usually a deputy director or director responsible for the area under review.

#### 4.5.8 Audit action owner

The audit action owner is accountable to the senior sponsor for an internal audit engagement (see 4.5.7) for implementing actions agreed as a result of an internal audit report, and for reporting progress (see 4.2.5).

#### 4.5.9 Senior officer accountable for internal audit services in an organisation

The senior officer accountable for internal audit services in an organisation is accountable to the relevant accounting officer for provision of an effective, efficient and holistic internal audit service.

Those undertaking this role shall be a chartered member of the Chartered Institute of Internal Auditors, hold a Consultative Committee of Accountancy Bodies qualification [8], or have an equivalent qualification.

The senior officer accountable for internal audit services in an organisation shall provide and maintain a high-quality internal audit service, including:

- leading and directing an internal audit service that is resourced appropriately, sufficiently and effectively [9]
- developing and maintaining an internal audit charter for the organisation (see 4.1.3)
- developing and maintaining an internal audit strategy and plan for the organisation (see 4.2.3, 4.2.4)
- providing progress reports to senior leaders (see 4.2.5)
- preparing the annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (see 4.1.4)
- supporting the organisation to use findings from internal audit engagements to improve the organisation's policy

development and operational delivery through action planning and monitoring (see 6.4)

- sharing relevant lessons from cross-government internal audit activity

The senior officer accountable for internal audit services in an organisation shall determine the nature, timing and extent of follow-up to completion of actions, in agreement with the organisation's senior managers and its audit and risk assurance committee.

This role can cover one or more organisation.

Note: This role is often called the head of internal audit (HIA) or chief audit executive (CAE). Where internal audit is provided by a group or shared service, a senior officer could be responsible for more than one organisation (a designated group), supported by heads of internal audit for each organisation in the group.

#### 4.5.10 Internal auditor

The internal auditor is accountable to the senior officer accountable for internal audit services in an organisation (see 4.5.9) for effective delivery of designated internal audit engagements.

The internal auditor shall possess the knowledge, skills and other competencies needed to perform their individual responsibilities. Audit engagements should be allocated to auditors of suitable seniority and proficiency operating with due professional care to undertake the work, based on the level of risk and complexity. A hierarchy of job titles may be specified to indicate the seniority of those undertaking audit engagements.

The internal auditor should ensure that internal audit engagements are delivered to meet the quality, time and budget requirements of the relevant internal audit charter, strategy and plan (see 4.1.3, 4.2.3, 4.2.4).





The internal auditor shall ensure that the senior sponsor for an internal audit engagement in an organisation (see 4.5.7) is offered the opportunity to discuss the findings and recommendations of an internal audit report before it is finalised.

The internal auditor should issue the final report to the senior sponsor for an internal audit engagement in an organisation (see 5.4.1, 4.5.7), the National Audit Office, and other recipients as agreed with the sponsor.

The internal auditor should deliver other assurance products as agreed with client organisations, in line with quality and time requirements.

An auditor may be supported by an individual or team.

#### **4.5.11 Specialist internal auditor**

Some audit engagements require specialist expertise, alongside proficiency and professional due care, so where appropriate, a specialist auditor should be appointed. This might relate to data and technology, project delivery, data, technology, commercial, finance or other specialisms. Relevant functional standards shall be followed: GovS 002, Project delivery; GovS 005, Digital, data and technology; GovS 006, Finance, and GovS 008, Commercial.

The specialist auditor may be part of a team comprising auditors and specialist auditors, or the entire engagement may be delivered and managed by specialists accountable to the senior officer accountable for internal audit services in an organisation.

## **4.6 Other requirements**

### **4.6.1 Public Sector Internal Audit Standards**

Those providing internal audit services to government shall meet the public sector internal audit standards [5], which promote improvement in the professionalism, quality, consistency and effectiveness of internal audit services across the public sector. [Annex C]

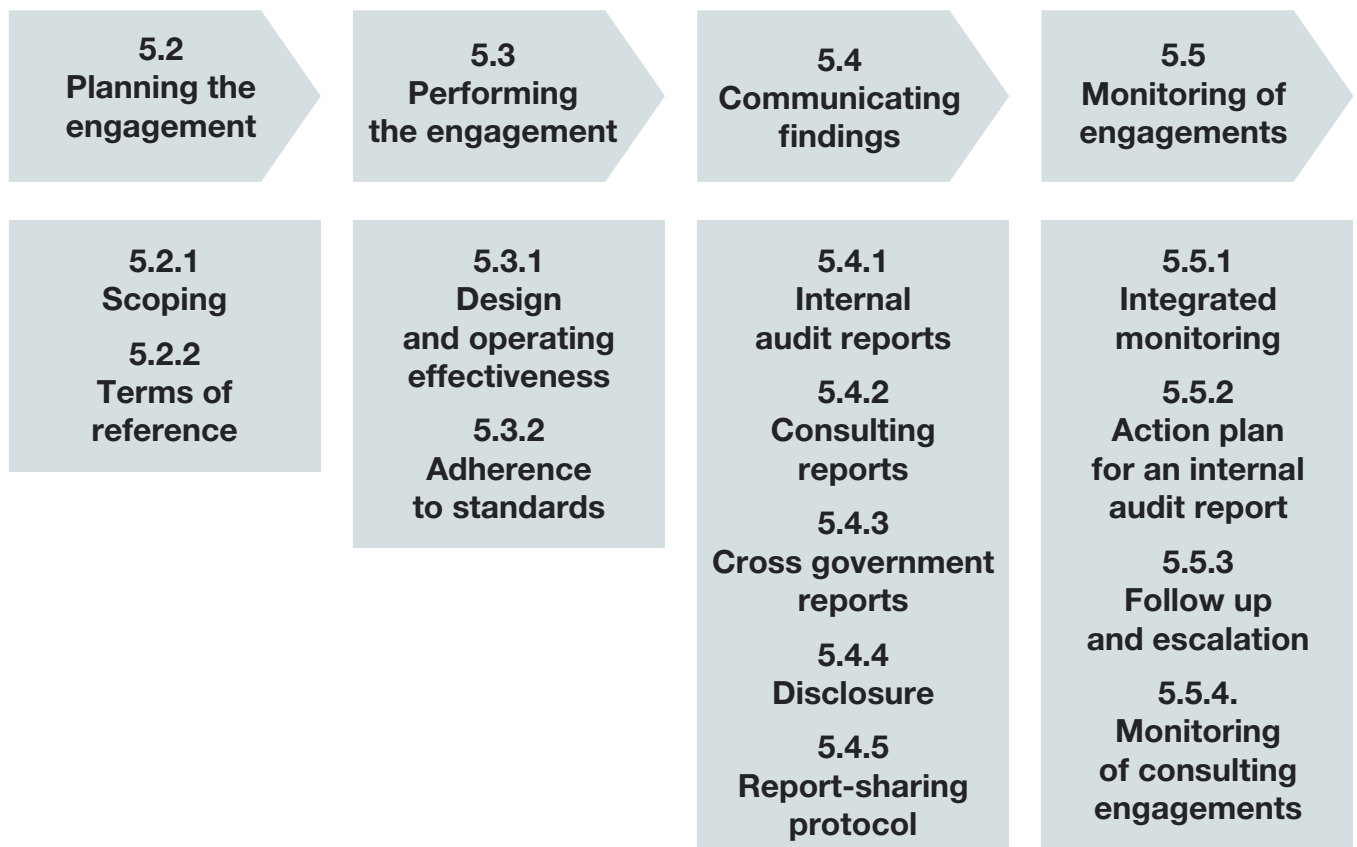
Note: Public sector internal audit standards are based on the mandatory elements of the International Professional Practices Framework of the Global Institute of Internal Auditors [10].

### **4.6.2 The code of ethics of the institute of internal auditors**

The code of ethics promotes an ethical culture in the global profession of internal auditing. It sets out principles relevant to the profession and practice of internal auditing, including rules of conduct and the behaviour expected of internal auditors.

## 5. Internal audit engagement life cycle

### 5.1 Overview



**Figure 2** Life cycle of an internal audit engagement

Internal audit engagements should be undertaken in accordance with the requirements and timings defined in the internal audit plan (see 4.2.4). The primary practices involved in the life cycle of an internal audit are shown in Figure 2.

#### 5.1.1 Internal audits

Internal audits provide an objective assessment of the framework of governance, risk management and control to support the three lines model and to inform the annual internal audit opinion (see 3.2, 4.1.4).

Provision of internal audits is the primary purpose of internal audit services in government.

#### 5.1.2 Consulting engagements

Consulting engagements are advisory in nature and are generally performed at the specific request of the organisation (or organisations), with the aim of improving governance, risk management and control. This may include providing advice and guidance on current best practice in governance, risk management, systems design and development, internal controls and management.

Non-auditing consulting services (such as responsibility for compliance or risk management activities) may impair or appear to impair, the independence of the internal audit activity or the individual objectivity of the internal auditor. Where significant non-audit consulting services are proposed and were

not already included in the organisation's audit plan [5] the board shall approve them prior to accepting the engagement.

### 5.1.3 End to end engagements for shared services

An end to end engagement is used to assure work where a shared service provider is used to carry out operational services on behalf of an organisation (for example relating to finance, payroll, technology, delivery chain or system thinking across departments).

In these cases, holistic assurance may be given for the processes involved, covering both the organisation procuring the service, and the shared service provider.

End to end engagements may be assurance engagements or consulting engagements.

### 5.1.4 Real time or embedded assurance

Real time or embedded assurance is where an internal audit resource may be embedded within programmes, projects or committees, rather than being used to conduct individual engagements.

This arrangement can be used to provide on-going real time assurance and advice to management, where needed.

Advice and/or findings may be provided verbally or in writing.

Real time or embedded assurance may highlight areas of risk. This can trigger revisions to the audit plan, which may include specific internal audit engagements.

The senior officer accountable for internal audit services in an organisation should ensure that additional non-auditing roles and responsibilities (such as embedded and real time assurance activities) do not impair, or appear to impair, the independence of the internal audit activity or the individual objectivity of the internal auditor.

Findings from real time or embedded assurance shall be used to support the annual opinion

## 5.2 Planning the engagement

### 5.2.1 Scoping

The senior sponsor for an internal audit engagement in an organisation (see 4.5.7) shall provide information on the audit area to facilitate planning of the engagement, such as policies and procedures, structure charts and risk registers.

### 5.2.2 Terms of reference

The internal auditor shall prepare terms of reference for the engagement, including but not limited to:

- the engagement title
- the name of senior sponsor(s)
- the scope, including limitations of scope
- assurance objective
- the strategic and local tactical objectives for the work under review, and the risks to achievement of the objectives defined by the organisation
- its adherence to relevant standards and controls [5]
- the approach to delivery of the engagement including deliverables, timetable and audit engagement team
- any security requirements (see 6.7)
- the distribution list (at draft and final reporting stages)
- communication of progress and results

The internal auditor shall agree the terms of reference with the senior sponsor for an internal audit engagement in an organisation and shall meet quality requirements (see 4.3).

The senior sponsor for the audit engagement (see 4.5.7) shall review the terms of reference and provide ratification before the audit engagement starts, in consultation with the internal auditor and other stakeholders if required.

For cross-government engagements, consultation may be done separately with each organisation, or a single meeting may be held with sponsors present.

Internal audit engagements should be planned to minimise disruption to the organisation's work, avoiding overlaps with other assurance activities and duplication of effort, whilst remaining rigorous.

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

## 5.3 Performing the engagement

### 5.3.1 Design and operating effectiveness

The internal auditor should evaluate the design and operating effectiveness of the organisation's policies and processes.

The internal auditor should:

- take account of the organisation's strategic objectives
- review operational performance and outcomes planned or achieved
- consider the organisation's risk appetite
- take account of adopted values and ethics

The internal auditor shall obtain sufficient, reliable, relevant and useful information of the adequacy and effectiveness of operational and other control arrangements.

### 5.3.2 Adherence to standards

Where appropriate, internal auditors should consider how well relevant government standards are being met. Government standards include functional standards, subject-specific standards and professional standards.

## 5.4 Communicating findings

### 5.4.1 Internal audit reports

The internal auditor shall communicate the engagement's objectives, scope and results.

Results should include findings, recommendations, conclusions and action plans based on root cause analysis, arising from the fieldwork and evaluation undertaken. Results should be solution focussed and feasible and should provide an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control relating to the work within scope.

The internal auditor should ensure that the draft communication meets quality requirements agreed between the senior officer accountable for internal audit services in an organisation and the senior sponsor for internal audit services in an organisation. Where opinion ratings are given, they should be in line with central government definitions.

Note: Opinion ratings currently use the headings: substantial, moderate, limited and unsatisfactory.

The senior sponsor for an internal audit engagement in an organisation (see 4.5.7) shall review the draft communication and work with the internal auditor to finalise it, within agreed timescales. This should include:

- drawing upon expertise where needed to confirm factual accuracy
- ensuring that agreed consultees have an opportunity to review the draft report and provide comments
- developing an action plan to respond to each recommendation and conclusions, including management comments where no action is proposed (see 5.5.2)

The senior sponsor for an internal audit engagement in an organisation shall approve the final report for issue. The final communication should incorporate the organisation's action plan to address findings (see 5.5.2).

The senior sponsor for internal audit services in the organisation, or another senior executive represented on the organisation's board, should be identified as accountable for ensuring that the actions are delivered.

#### 5.4.2 Consulting reports

Communication of the progress and results of consulting engagements might vary in form and content depending upon the nature of the engagement.

The senior officer accountable for internal audit services in an organisation is responsible for communicating the results of consulting engagements to the senior sponsor for a consulting engagement in an organisation.

During consulting engagements, governance, risk management and control issues might be identified. Whenever these issues are significant to the organisation, they shall be communicated to senior management and the board and shall be considered in forming the annual opinion (see 4.1.4).

#### 5.4.3 Cross-government reports

For cross-government engagements the internal auditor may provide detailed reports to each organisation, and a summary report drawing together common themes.

Internal auditors should ensure that sponsors of arm's length bodies in departments are able to review draft content relating to their organisation contained in a summary report, before it is finalised.

#### 5.4.4 Disclosure

The senior sponsor for internal audit services in an organisation shall consult the senior officer accountable for internal audit services in an organisation before disclosing information within internal audit reports to third parties.

#### 5.4.5 Report-sharing protocol

Those seeking access to another organisation's internal audit report shall follow the protocol for sharing Internal Audit reports [14] which sets out how, and under what circumstances, internal audit reports may be shared.

Note: Attention is drawn to part 3 of the Secretary of State code of practice issued under section 45 of the Freedom of Information Act [11] and its equivalent in other jurisdictions.

### 5.5 Monitoring of engagements

#### 5.5.1 Integrated monitoring

Monitoring shall be 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 engagements and uses processes, tools and information considered necessary.[7]

#### 5.5.2 Action plan for an internal audit report

The senior officer accountable for internal audit services in an organisation shall agree with the audit and risk assurance committee (see 4.5.5) how monitoring the completion of agreed audit actions should be delivered, and the division of associated responsibilities such as progress reporting (as agreed in the audit charter, see 4.1.3).

The senior sponsor for an internal audit engagement in an organisation (see 4.5.7) shall develop and provide an action plan for

implementing each recommendation in the audit report, or a management comment where no action is proposed. The action plan should include realistic and achievable timescales for completion.

To secure expected enhancements to governance, risk management and/or control, the audit action owners should ensure completion of actions. This should be in line with the timescales agreed in the final report. Where there are delays the audit action owner should provide an explanation of the delay and an assessment of the impact of the delay on achievement of objectives and/or value for money.

### **5.5.3 Follow up and escalation**

The senior officer accountable for internal audit services in an organisation shall establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that the senior sponsor for the internal audit engagement (see 4.5.7) has accepted the risk of not taking action.

The senior officer accountable for internal audit services in an organisation (see 4.5.9) may conclude that management has accepted a level of risk that might be unacceptable to the organisation. Where this arises, the accounting officer should be alerted and consulted.

If the senior officer accountable for internal audit services in an organisation determines that the accounting officer has not resolved an issue of unacceptable risk, they shall escalate the matter to the organisation's board via the audit and risk assurance committee.

### **5.5.4 Monitoring of consulting engagements**

Appropriate communication of the progress and results of consulting engagements can vary in form and content depending upon the nature of the engagement, and the needs of the client.

The senior sponsor for consulting engagements in an organisation shall agree with the senior officer accountable for internal audit services in an organisation the monitoring and communication of the results of consulting engagements.

## 6. Internal Audit Practices

### 6.1 Overview

This section includes practices which supplement those in section 5 and which can be used throughout the internal audit cycle. Practices should be managed and monitored using a defined approach that is improved through use.

See also Annex C (Public Sector Internal Audit Standards).

### 6.2 Risk

#### 6.2.1 Overview

In assessing and managing risk, the requirements and guidance of the Orange Book should be followed [1].

#### 6.2.2 Risk identification and assessment

Risk identification and assessment enables organisations to determine and prioritise how risks should be treated.

A risk assessment should be used to inform the annual audit plan and to ensure that internal audit activity aligns to the organisation's strategies, objectives and risks.

To support an internal audit engagement, organisations shall provide evidence of risk assessment, which should include but not be limited to:

- business plans
- risk registers
- governance statement
- assurance maps
- management information on performance

#### 6.2.3 Risk appetite

Risk appetite provides a framework to enable an organisation to make informed management decisions without compromising the achievement of the organisation's objectives [12].

An organisation's board is accountable for determining and continuously assessing risk appetite.

The senior officer accountable for internal audit services in an organisation should develop and maintain an assessment of how well risk appetite:

- has been established and is being maintained
- represents current circumstances and reflects active review by the board and executive management
- is embedded within the activities, limits and reporting of the organisation

A framework for escalation of common risks identified across government should be defined and established, so that relevant accounting officers and senior leaders can take these into account in making strategic cross-government decisions.

Note: The risk appetite guidance note has been developed to provide key considerations for organisations to apply when formalising and strengthening their existing practices to support and inform decision-making [12].

### 6.2.4 Assurance maps

Assurance maps should be developed and maintained by organisations to enable and promote a common understanding, and a collective view of assurance across the organisation and to provide:

- a clear statement of assurance processes
- better understanding of the risks and key processes, and completeness of assurance
- identification of major gaps in assurance and duplication of assurance
- better targeting of resources and improved governance and reporting to boards and committees

Assurance maps may embed the 3 lines model. [7].

Note: For further details refer to GovS 006 Finance; Managing Public Money [13] annex 3.1: the governance statement; Assurance Frameworks Guidance [7]; the Orange Book: Management of Risks – Principles and Concepts [1] and the Audit and Risk Assurance Committee Handbook [6].

## 6.3 Control framework

### 6.3.1 Overview

Control is an action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals can be achieved [5].

### 6.3.2 Control Framework

A control framework should be defined and established, to enable auditors to assess:

- the design and effectiveness of the control environment
- how well the operation of controls is working
- the impact of gaps in or ineffective operation of controls

### 6.3.3 Control environment

Organisations should operate an internal control environment that is the dynamic and iterative framework of processes, policies, procedures, activities, devices, practices, or other conditions and/or actions that maintain and/or modify risk.

Internal controls permeate and are inherent in the way the organisation operates and are affected by cultural and behavioural factors [1].

Audit engagements should consider, but not be limited by, the following aspects of the control environment:

- 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

Audit engagements should include recommendations for improving the control environment, including embedding lessons learned.

### 6.3.4 Control environment self-assessment review

A control environment self-assessment review of expected controls and the control environment is undertaken by an organisation to support them in identifying and managing areas of risk exposure, as well as highlighting potential opportunities for better risk mitigation.



A control environment self-assessment should be used to:

- create clear lines of accountability for controls
- reduce the risk of fraud and/or error
- provide assurance that internal controls systems are reliable
- through examination of data to flag unusual patterns of activity
- lower an organisation's risk profile

## 6.4 Learning from internal audit engagements

### 6.4.1 Across government

Insights from internal audit activity add value across government, by applying knowledge and perspective gained in one organisation to the work undertaken in others [1].

Organisations should share lessons learned from audits with the senior officer accountable for internal audit across government (see 4.5.2). Recommended practice identified should be used for the provision of helpful cross-government products. Opportunities should be taken for the findings to be delivered to relevant stakeholders.

The senior officer accountable for internal audit across government should ensure confidentiality while sharing high-level cross-government insights. Sharing of assurance ratings, detailed findings and recommendations should normally be limited to those organisations already directly involved in the work.

The senior officer accountable for internal audit across government should draw together lessons from individual audit engagements in different organisations and share these in suitable form with relevant organisations. This should include recommended actions for addressing systemic issues identified.

Where required, the senior officer accountable for internal audit across government should plan and conduct specific cross- government internal audit reviews to support the needs of organisations and government as a whole. This might include, but should not be limited to, cyber security, sustainability and data governance.

### 6.4.2 Within an organisation

Organisations should share relevant learning from audit engagements appropriately across the organisation, to strengthen the first and second lines of assurance, and improve governance, risk management and control.

## 6.5 Engagement and communications

Organisational feedback helps improve the quality of internal audit services, through a better understanding of the needs of the organisation and perceived quality of delivery.

The senior officer accountable for internal audit services in an organisation (see 4.5.9) should agree with the senior sponsor for internal audit services in an organisation (see 4.5.6) the planned engagement and communication measures to meet the needs of senior sponsor for internal audit services in an organisation and include feedback mechanisms and effectiveness measures, for example surveys to measure the sponsor's satisfaction.

The senior officer accountable for internal audit services in an organisation should seek feedback on individual engagements and engage regularly with organisation sponsors to discuss performance.

The senior sponsor for an internal audit engagement in an organisation (see 4.5.7) should respond promptly to requests for feedback on individual engagements.

## 6.6 Data protection

Both the organisation and the internal audit service provider are data controllers under current data protection legislation.

Each party shall implement and maintain appropriate technical and organisational measures in relation to the processing of protected data.

Note: Attention is drawn to General Data Protection Regulations, and its equivalent in other jurisdictions.

## 6.7 Access and security

The senior officer accountable for internal audit services in an organisation shall ensure that internal auditors have appropriate security clearance for the work being done, in line with the memorandum of understanding as appropriate, so that internal auditors can be given full access to relevant client information.

Information relevant to the engagement should be managed in accordance with GovS 007, Security.

## 6.8 Service levels for engagements

The senior sponsor for internal audit services in an organisation shall define the level of internal audit service expected, with sufficient resources to deliver a service in line with required standards (including conducting the work needed to inform the annual audit opinion).

Service levels shall be defined and established:

- through a memorandum of understanding, where the organisation obtains its internal audit service from a shared service, to cover the contracting aspects of the arrangement, where appropriate
- through a contract, where an organisation obtains its internal audit service from an external provider

Where an organisation has an embedded internal audit team, commercial documentation is not required, although service standards and performance metrics are relevant, and contained within the audit charter (see 4.1.3).

Internal audit service providers may use competent third parties to provide specialist services that are not otherwise available, or to meet additional demand that cannot otherwise be met. Appointment of third-party suppliers shall follow GovS 008, Commercial.

### 6.8.1 Improving quality of services

Internal audit service providers should have a quality assurance and improvement programme (see 4.3).

The internal audit service's compliance with internal audit professional standards and the code of ethics (see 4.6.2) should be evaluated and subject to external quality assessment every five years. Opportunities for improvement should be identified and included in relevant plans and service level agreements.

## A. References

All references are correct at the time of publication, users should check for updated versions.

I.D.	Description
1	HM Treasury, Government Finance Function <i>The Orange Book</i> (2020)
2	IIA, <i>Three Lines Model</i> (2020)
3	Cabinet Office, <i>Corporate governance in central government departments</i> (2017)
4	HM Treasury, <i>Review of financial management in government</i> (2013)
5	CIPFA, HM Treasury et al., <i>Public Sector Internal Audit Standards</i> (2017)
6	HM Treasury, <i>Audit and Risk Assurance Committee handbook</i> (2016)
7	HM Treasury, <i>Assurance frameworks</i> (2012)
8	Consultative Committee of Accountancy Bodies, <i>Consultative Committee of Accountancy Bodies</i>
9	CIPFA's Statement on the <i>Role of the Head of Internal Audit</i> (2019)
10	Institute of Internal Auditors, <i>International Professional Practices Framework, Standards and Guidance</i> (2017)
11	Freedom of Information Act, <i>Freedom of Information Act</i> (2020)
12	Government Finance Function, <i>Risk Appetite Guidance Note</i> (2020)
13	HM Treasury, <i>Managing Public Money</i> (2013 revised 2021)
14	Internal Audit report sharing protocol, <i>Protocol for sharing Internal Audit Reports</i>

## B. Glossary

See also the **common glossary of definitions** which includes a list of defined terms and phrases used across the suite of government functional standards. The glossary includes the term, definition, and which function owns the term and definition.

Term	Definition
arm's-length body (ALB)	<p>Central government bodies that carry out discrete functions on behalf of departments, but which are controlled or owned by them. They include executive agencies, Non-Departmental Public Bodies and government-owned companies.</p> <p>More information on classification of public bodies can be found here: <a href="http://www.gov.uk/government/publications/classification-of-public-bodies-information-and-guidance">www.gov.uk/government/publications/classification-of-public-bodies-information-and-guidance</a></p>
assurance	<p>A general term for the confidence that can be derived from objective information over the successful conduct of activities, the efficient and effective design and operation of internal control, compliance with internal and external requirements, and the production of insightful and credible information to support decision making. Confidence diminishes when there are uncertainties around the integrity of information or of underlying processes.</p>
audit and risk assurance committee	<p>The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. The audit committee provides oversight of financial reporting, risk management, internal control, compliance, ethics, management, internal auditors, and the external auditors.</p>
audit opinion	<p>The rating, conclusion and/or other description of results provided by the senior sponsor for internal audit services in an organisation addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall audit opinion is the professional judgement of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.</p>
board	<p>The highest-level governing body (e.g. a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organisation's activities and hold senior management accountable.</p>

Term	Definition
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 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; and competence of personnel.
defined (way of working)	In the context of standards, defined denotes a documented way of working which people are expected to use. This can apply to any aspect of a governance or management framework – for example processes, codes of practice, methods, templates, tools and guides.
established (way of working)	In the context of standards, established denotes a way of working that is implemented and used throughout the organisation. This can apply to any aspect of a governance or management framework – for example processes, codes of practice, methods, templates, tools and guides.
governance	Governance defines relationships and the distribution of rights and responsibilities among those who work with and in the organisation. It determines the rules and procedures through which the organisational objectives are set and provides the means of attaining those objectives and monitoring performance. Importantly, it defines where accountability lies throughout the organisation.
governance and management framework	A governance and management framework sets out the authority limits, decision making roles and rules, degrees of autonomy, assurance needs, reporting structure, accountabilities and roles and the appropriate management practices and associated documentation needed to meet this standard.
internal auditing	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.

Term	Definition
internal audit 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. It should be reviewed periodically and approved by the audit committee.
internal audit 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.
management framework	The agreed management practices and associated documentation adopted by an organisation (or part thereof).
memorandum of understanding	The MOU documents the common intent of both parties regarding the commissioning and delivery of the internal audit service and provides a framework and set of principles to guide the parties in the working arrangements.
non-departmental public body	A subset of arm's length body. A public body with a role in the process of national government that is legally separate from its sponsoring department and operates independently from ministers.
organisation	In the context of government functional standards, 'organisation' is the generic term used to describe a government department, arm's length body, or any other entity, which is identified as being within the scope of the functional standard.
plan	A plan sets out how objectives, outcomes and outputs are to be delivered in accordance with the strategy.
risk appetite	The amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time.
risk management	Risk management is the co-ordinated activities designed and operated to manage risk and exercise internal control within an organisation.
root cause analysis	Root cause analysis is a process for understanding 'what happened' and solving a problem through looking back and drilling down to find out 'why it happened' in the first place. Then, looking to rectify the issue(s) so that it does not happen again, or reduce the likelihood that it will happen again.



<b>Term</b>	<b>Definition</b>
sponsorship framework	The framework document sets out the broad parameters within which organisation will operate but does not convey any legal powers or responsibilities.
standard	A standard is an agreed document that provides requirements, specifications, guidelines or characteristics that can be used consistently to ensure that materials, products, processes and services are fit for their purpose.
strategy	A strategy outlines longer term objectives, outcomes and outputs, and the means to achieve them, to inform future decisions and planning.

## C. Public sector internal audit standards

The public sector internal audit standards are the professional standards for public sector auditors in the UK.

These professional standards:

- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying out internal audit in the UK public sector;
- 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 bodies responsible for setting these UK standards are:

- HM Treasury
- Scottish Government
- Department of Finance Northern Ireland
- Welsh Government
- Department of Health
- Chartered Institute of Public Finance and Accountancy.

The UK's public sector internal audit standards **encompass the mandatory elements of the International Professional Practices Framework (IPPF) with additional requirements and interpretations for the UK public sector**, specifically those set by the Institute of internal auditors. The Institute promulgates the international professional practices framework, which is the conceptual framework that organises the institute's authoritative guidance. Authoritative guidance comprises two categories (1) mandatory and (2) endorsed and strongly recommended. For the purposes of the public sector internal audit standards, only the mandatory elements apply.

The Institute of Internal Auditors (IIA) Code of Ethics applies to both individuals and entities that provide internal auditing services. For IIA members, breaches of the Code of Ethics will be evaluated and administered according to the IIA's disciplinary procedures.



