HM TREASURY

Internal Audit Quality Assessment Framework

September 2011

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Foreword

The Internal Audit Quality Assessment Framework is the Treasury's recommended approach to carrying out internal and external quality assessments. It has been designed to help evidence effective internal auditing in line with the Government Internal Audit Standards with a focus on outcomes that help our organisations to meet their public service delivery commitments.

The approach has been aligned to the Chartered Institute of Internal Auditor's professional guidance; Quality Assurance and Improvement Programmes[1]. If followed appropriately, this should enable internal auditors to state that their work is "conducted in accordance with the International Standards for the Professional Practice of Internal Auditing".

The Government Internal Audit Standards require regular internal assessments and an external review at least every five years. That, of course, does not prohibit more frequent or additional review. We aim to use the Framework to help drive forward the quality of internal audit in government, enabling the sharing of good practice examples and the identification of common issues and areas for development. Feedback on the Framework should be provided to keren.parsons@hmtreasury.gsi.gov.uk .

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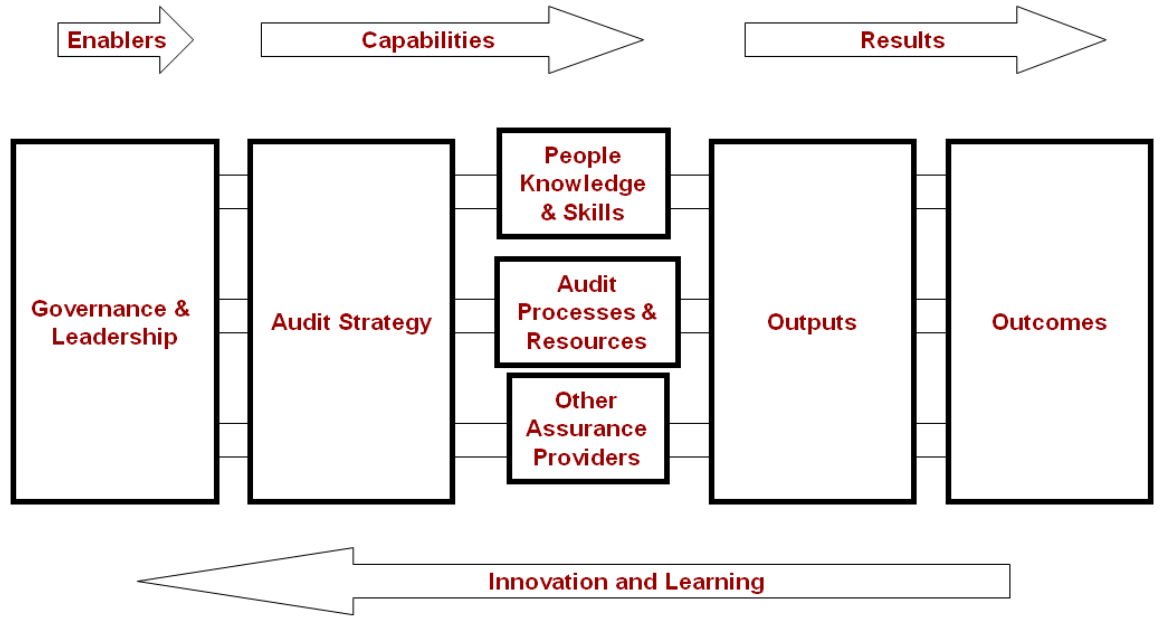
[1] http://www.iia.org.uk/en/other/document_summary.cfm/docid/9E28989D-9091-4217-809D285BC517F901

1 Introduction

Introduction

1.1 The Internal Audit Quality Assessment Framework (IAQAF) is a tool for evaluating the quality of the internal audit service in an organisation. It is intended to:

- Facilitate identification of actions for continuous improvement;
- Facilitate evaluation of progress with improvement plans;
- Provide an approach to both internal and external Quality Assurance reviews which is not "tick box" and which goes beyond compliance with the Standards alone.



1.2 The approach is broadly inspired by the Risk Management Assessment Framework[1] (RMAF). As with the RMAF, the IAQAF has been adapted from the EFQM model.

The Broad Approach

1.3 The Framework has seven high level elements. These elements encompass **enablers** for effective internal audit, the **capability** of the internal audit function to deliver, and the **results** of internal audit work. Although reference with the Government Internal Audit Standards is not explicit, compliance should be considered as appropriate in each element, and relevant references to the Standards are indicated in relation to each element.

1.4 Assessment against the Framework seeks to answer the high level questions summarised in the table below:

[1] http://www.hm-treasury.gov.uk/risk_management_assessment_framework.htm

Enablers
Are there robust governance arrangements that promote: • Effective internal audit? • An effective relationship between the Accounting Officer/Board/Audit Committee and internal audit, with clearly understood roles and responsibilities? • A culture of good business ethics and governance? Does the internal audit function have sufficient status and independence to fulfil its professional remit?
Capabilities
Is there an internal audit strategy that clearly states the objectives of the internal audit function and how they will be delivered? Does the internal audit function appropriately plan for, acquire, deploy and develop an appropriate and sufficient range of skills and knowledge that will enable delivery of the audit strategy? Do the internal audit processes and resources promote an effective and efficient internal audit function? Does the internal audit function effectively engage with appropriate assurance providers to reduce the burden of audit and ensure the Board receives overall assurance?
Results
Are audit products effective in communicating audit opinions and advice to various levels of the organisation? Does the Accounting Officer/Board believe it is sufficiently assured and supported in decision-making by the work of internal audit? Does internal audit advice lead to changes that impact on the management of the organisation's risk priorities?

1.5 For each of the 7 elements of the Framework there is a set of associated questions to help the reviewer collect evidence. The questions are indicative of the range of issues and extent of evidence needed to decide what level is currently being achieved. They are intended to provoke an active and critical consideration of the quality of the internal audit function. The relevance of individual questions may vary from organisation to organisation. The intention is that the question sets are "background support" for the reviewer to help with planning work that needs to be done to collect evidence. They are however, not intended to be, for example, a model framework for interviews.

Selection of reviewers

1.6 The selection of a reviewer will depend on the nature of the review. For internal reviews the reviewer is likely to be selected from within the staff of the internal audit service. For an external review the reviewer will need to have demonstrable independence from the Internal Audit service being reviewed. The Framework is premised on the reviewer being able to apply considerable experience of internal audit to their consideration of the evidence being gathered, so in all cases it is important that the reviewer is a professionally qualified Internal Auditor with considerable experience.

Quality of evidence

1.7 It is very important of course that reviewers do not try to collect evidence for the marking that they want to achieve; rather they should collect the evidence and make an evaluation of what that evidence indicates. Using the Framework is no different to conducting an audit – the evidence should be such that another competent reviewer considering the same evidence would come to the same conclusion. Indeed the expectation is that a reviewer will use an audit assignment approach to conducting the review – planning their work, identifying stakeholders who should be consulted as part of the review, identifying the most appropriate means of ascertaining how the audit service is delivered, using a combination of interviews and reviews of documentation and then using samples of actual work to test and refine conclusions. Space is provided in the templates to record details of evidence provided and any actions required.

Evaluation

1.8 The evaluation scale provides a means of assessing and monitoring performance, identifying and setting targets for improvement, and in judging progress towards those targets. It will also be useful in establishing a basis for planning and priority setting for future work plans and for peer review and/or benchmarking, both within and between organisations.

1.9 A purpose of the framework is to facilitate continuous improvement and the evaluation scales are simply a record of the evaluation made at a particular point in time. Over time when the framework is reapplied, comparison with previous evaluations will show trends in relation to the seven aspects of the framework.

1.10 The evaluation scales provided are not an end in their own right, nor is there an expectation that all internal audit services should be aiming for a maximum level of 5 in relation to every element. The evaluation scales have been structured so that levels 1 and 2 are always indicative of a situation in which improvement will be required, but once level 3 or above is achieved, the organisation will have to reach its own decision as to whether their need is for performance at a higher level. It is not necessarily the case that any particular organisation will want its internal audit service to perform at the same level in respect of every element of the Framework – an aim to be at level 3 for some elements, level four for others, and level 5 for yet others would be perfectly reasonable. Each of the seven elements uses an evaluation scale along the following lines:

Level 1	Awareness of significant areas requiring development/improvement
Level 2	Plans developed to remedy areas for improvement are being implemented
Level 3	Evidence to indicate that there is adequate performance in delivering overall assurance consistently
Level 4	Evidence to indicate that there is good practice embedded and demonstrable added value in relation to the organisation's objectives
Level 5	Evidence to indicate that others e.g. members of the profession recognise you as being exemplar, i.e. you are regularly asked to share your good practice with others

2 Governance and leadership

Are there robust governance and leadership arrangements that promote:

- Effective internal audit?
- An effective relationship between the Accounting Officer/Board/Audit Committee and internal audit, with clearly understood roles and responsibilities?
- A culture of good business ethics and governance?

Table 2.A: Assessment of Progress

Level 1: Emerging	Level 2: Developing	Level 3: Operating	Level 4: Maturing	Level 5: Exemplar
☐	☐	☐	☐	☐
The Board is developing its understanding of its role in providing an environment in which internal audit can be an effective service.	The Board is implementing plans to provide an environment in which internal audit can be an effective service.	The Board has established an environment, which enables internal audit to deliver an effective service.	The Board welcomes contributions from internal audit on governance risk, and control at all levels.	The Internal Audit service is valued by the Board/Audit Committee/AO and effectively engaged at the strategic level. The HIA has an ongoing meaningful relationship with the AO. Internal Audit is recognised by the Audit Committee as the key provider of its assurance needs. The Board regularly welcomes/seeks the support of the HIA.
Evidence				

Action Plan	Target Date

Is there an effective relationship between the Accounting Officer/Board/Audit Committee and Internal Audit?

- Is the relationship between the Accounting Officer (including any third party Accounting Officer), Board, Audit Committee and Head of Internal Audit (HIA) adequately documented, communicated and understood by all relevant parties, reviewed regularly and updated as appropriate to the organisation's needs?
- Does the HIA report directly and meet regularly with the Accounting Officer?
- Does the Accounting Officer have responsibility for the performance appraisal of the HIA?
- Has the Accounting Officer discussed with the HIA their assurance requirements on risk management, control and governance?
- Does the Accounting Officer (with advice as appropriate from the Audit Committee) make adequate arrangements for the routine provision and management of the budget and resources for internal audit?
- Has the Accounting Officer sought the Audit Committee's advice on:
    - The arrangements for and the results of quality assurance processes?
    - The adequacy of management response to internal audit advice and recommendations?
- Has the Audit Committee recently had a positive assessment of its effectiveness against the HM Treasury Audit Committee Handbook, March 2007?
- Does the HIA or their representative attend Board and/or senior management meetings, particularly where key issues are discussed relating to governance, risk management or control across the department and its ALBs?
- Does the HIA or their representative attend all Audit Committee meetings?
- Does the HIA have direct access to discuss any issues with the Audit Committee Chair?
- Does the Audit Committee advise the Accounting Officer on the skill, experience, and competency requirements for the post of HIA?
- Does the Audit Committee Chair have input into the HIA's performance appraisal?
- Has the formal Internal Audit Charter outlining the purpose, authority and responsibility of the internal audit activity been approved by the Audit Committee, and is it periodically reviewed by the Audit Committee?
- Do the AO/Audit Committee agree the strategy/plans of the Internal Audit service?
- Do the AO/Audit Committee Chair routinely see and consider the outputs of the Internal Audit Service?

- Do the AO/Audit Committee Chair take appropriate steps to ensure that actions from Internal Audit reports are implemented?
- Does the Audit Committee monitor and review the effectiveness of the internal audit activity?

Does the environment in which internal audit operates promote an appropriate culture of good business ethics/public sector values and governance?

Is there clear evidence that:

- The HIA is kept informed of all new organisational developments in a timely manner?
- There is a written Code of Conduct that has been communicated to all staff in the organisation? Is it monitored and the appropriate action taken for all violations?
- "Whistleblowing" routes are available to all staff?
- A "Whistleblowing" policy been promulgated to all staff?
- Anti-fraud policy has been issued to all staff?
- Internal audit staff adheres to the Code of Ethics when carrying out their duties?
- The role and responsibilities of internal audit towards Fraud in the organisation has been clearly documented, promulgated to all staff, reviewed and updated regularly?
- The HIA is notified and kept informed of all suspected or detected fraud in the organisation including the involvement of external agencies, such as the police?
- Where a fraud has occurred, the HIA has considered the impact of the fraud and the adequacy of the relevant controls. The HIA has evaluated the implication of the fraud on their opinion of risk management, control and governance, and considered making recommendations to line managers regarding any need for more detailed investigation and improvements in control?

Leadership

Does the HIA effectively manage the internal audit activity to ensure that it adds value i.e.:

- Do the results of the internal audit activity achieve the purpose and responsibility included in the Internal Audit Charter?
- Does the internal audit activity conform to the Definition of Internal Auditing and the Standards?
- Is there evidence to demonstrate that the individuals who are part of the internal audit activity conform to the Code of Ethics and the Standards?
- Is there evidence to suggest that the HIA has sufficient status and credibility and is well respected by senior stakeholders?

Disclosure of non-conformance

- Has the HIA disclosed any minor non-conformance to the Audit Committee? Have more significant deviations been considered for inclusion in the Statement on Internal Control?

Box 2.B: Associated References

Code of Ethics

Government Internal Audit Standard:

- 1000–Purpose, Authority, and Responsibility
- 1210 – Proficiency
- 1220 – Due Professional Care
- 1322 – Disclosure of Non-conformance
- 2060 – Reporting to Senior Management and the Board
- 2120 – Risk Management

Corporate governance in central government departments: Code of good practice 2011

The Audit Committee Handbook, March 2007

As part of the governance arrangements, does the internal audit function have sufficient independence to fulfil its professional remit?

Table 2.B: Assessment of Progress

Level 1: Emerging ☐	Level 2: Developing ☐	Level 3: Operating ☐	Level 4: Maturing ☐	Level 5: Exemplar ☐
Internal audit is not sufficiently independent of the executive but the need for objectivity is recognised.	Senior managers are planning for internal audit to operate independently of the executive, in accordance with a formally approved Internal Audit Charter.	Internal audit is sufficiently independent from the executive, reports directly to the Accounting Officer, and has a formally approved Internal Audit Charter.	Internal audit is recognised throughout the organisation as a fully independent, objective assurance provider.	The executive actively encourages and promotes an independent and objective assessment from internal audit. Internal audit is seen as a trusted strategic adviser without compromising its objective role.
Evidence				
Action Plan			**Target Date**	

How does internal audit ensure that it has sufficient independence?

- Does internal audit have a formal Internal Audit Charter (agreed by the Audit Committee and Accounting Officer) that:
  - Defines its purpose, authority and responsibility, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*?
  - Defines the nature of the assurance services and consulting services provided to the organisation (including any assurances provided to parties outside of the organisation)?

- Covers the arrangements for the appointment of the HIA and internal audit staff, and identify the nature of professionalism, skills and experience required?
- 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?
- Is regularly reviewed, and communicated to all senior management and other relevant people?
- Recognises the mandatory nature of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*?

- Does the HIA report direct to the Accounting Officer? Does the HIA have free and unfettered access to the Accounting Officer? Does the Accounting Officer have responsibility for the performance appraisal of the Head of Internal Audit, advised by the Audit Committee Chair?
- Has the HIA established effective communication with, and free and unfettered access to, the Chair of the Audit Committee?
- Is the internal audit function entirely free of executive responsibilities?
- Has the HIA post been evaluated within the last three years, to ensure it is of a grade sufficient to give due weight to the influence of the HIA on the risk management, control and governance of the organisation?

Are internal auditors sufficiently independent and objective by:

- Not auditing operational areas for which they have previously had executive or management responsibility within the last year?
- Not undertaking subsequent audits of a system, which they have previously been involved in consultancy on systems design?
- Being free from interference in determining the scope of internal auditing, performing work and communicating results?
- Ensuring that assurance engagements for functions over which the HIA has responsibility is overseen by a party outside the internal audit activity?
- Disclosing potential impairments to independence or objectivity relating to proposed consulting services, prior to accepting the engagement?

Are there arrangements to:

- Ensure that internal auditors who have long-term responsibility for audit of a particular aspect of an organisation do not have their independence impaired over time?
- Identify and deal with conflicts of interest such as audit contractors or their companies having an interest in delivering other services to the organisation?
- Convey recommendations through audit reports, which make it clear that management acceptance of the recommendation, includes acceptance of the executive responsibility for the revised operation of the control?

Does:

- The HIA, at least annually confirm to the Accounting Officer/Audit Committee the organisational independence of the internal audit activity?
- The HIA notify the appropriate parties if independence or objectivity is impaired in fact or appearance?

Box 2.C: Associated References

Code of Ethics

Government Internal Audit Standard:

1000 –Purpose, authority and responsibility

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

1100 –Independence and Objectivity

1110 – Organisational Independence

1111 – Direct Interaction with the Board

1120 - Individual Objectivity

1130 – Impairment to Independence or Objectivity

Corporate governance in central government departments: Code of good practice 2011

3 Audit strategy

Is there an audit strategy that clearly states the objectives of the internal audit function and how they will be delivered?

Table 3.A: Assessment of Progress

Level 1: Emerging ☐	Level 2: Developing ☐	Level 3: Operating ☐	Level 4: Maturing ☐	Level 5: Exemplar ☐
The need for an audit strategy has been identified and accepted.	An audit strategy that meets the requirements of the Government Internal Audit Standards (GIAS) is being developed.	There is an audit strategy that adequately meets the needs of the Board and GIAS.	There is an audit strategy that meets the needs of the Board and requirements of GIAS, and seeks to continuously improve efficiency, effectiveness and economy of delivering the internal audit service.	Innovative, cutting edge strategic planning that is demonstrably achieving the optimum audit outcomes.
Evidence				
Action Plan			**Target Date**	

The HIA should agree with the Audit Committee the format of the audit strategy. Options include a single strategy document, the setting out of the strategy in an Audit Manual or a series of Audit Policy papers, which can be reviewed and amended as necessary.

Is there an audit strategy, which:

- Has been designed to meet the purpose of the internal audit activity and its service provision needs. Does the strategy advocate a systematic and prioritised review, outlining the resources and skills required best to meet the assurance needs of the Accounting Officer, Board and Audit Committee? Does the strategy take into account the relative risk maturity of the organisation?
- Gives consideration of all the areas of responsibility of the internal audit function including consideration of the:
    - Areas of change in the organisation, which are being subjected to systems development audit?
    - Consultancy work that should be undertaken by the internal audit function and how the Consultancy work contributes to the overall assurance/opinion?
- Includes an assessment of optimal resources and skills required to deliver both the audit assurance and consultancy work, including identification of specialist skills, which may be required?
- Includes an assessment of the impact of any shortfall in the actual resources and skills available?
- Includes consideration of options to ensure that any gap in audit coverage/skills gap is filled?
- Includes an assessment of the range of audit techniques that have been selected as the most effective for delivering the audit objectives?
- Sets out how and when the internal audit function will be externally quality assured?
- Sets out the approach to recruiting/training/continuing professional development of internal audit staff to ensure that they are suitably skilled to deliver the internal audit service?
- Includes an assessment of risks that the audit unit itself faces in delivering the strategy and plans for controlling and mitigating the risks identified?
- Sets out how internal audit will facilitate effective engagement with external auditors and other review bodies functioning in the organisation to ensure the most effective audit coverage, enhanced knowledge and minimise duplication of effort?
- Includes consideration of if, and how internal audit will rely on the assurance provided by external audit and other assurance providers?
- Sets out how the internal audit service will measure its performance, quality assure itself and seek continuous improvement?
- Has been approved by the Accounting Officer and Audit Committee?
- Has been promulgated to all relevant parties including members of the audit unit excluding any restricted information for senior managers only?
- Is subject to regular review to ensure that it remains appropriate and current?

Is the periodic plan:

- In alignment with the internal audit strategy and sufficient to achieve the objectives of the internal audit strategy, and to facilitate a positive, reasonable assurance? If the periodic plan falls short of the audit strategy, is there an agreed action plan for meeting the shortfall?
- Risk-based to determine the priorities of the internal audit activity and consistent with the organisation's goals?
- Developed by the HIA in consideration of the organisation's risk management framework, including risk appetite levels set by management for the different activities or parts of the organisation?
- Based on a documented risk assessment, undertaken at least annually? The input of senior management and the board must be considered in the process.
- Inclusive of purpose, scope, required resources and any specialist skills for each assignment?
- Formally approved by the Accounting Officer and Audit Committee?
- Reviewed regularly and changes to the periodic plan are reported to the Accounting Officer and Audit Committee and authorised appropriately?
- Communicated including significant interim changes to senior managers and inclusive of any limited resource implications to the Accounting Officer, Audit Committee Chair and senior managers?
- Inclusive of all accepted consulting engagements (the HIA should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations)?
- Inclusive of the approach to using other sources of internal and external assurances. Periodic plans should include any work associated with placing reliance upon such work?

Box 3.B: Associated References

Government Internal Audit Standards:

2010 – Planning

2020 – Communication and Approval

HM Treasury's Good Practice Guidance: Audit Strategy

4 People, knowledge and skills

Does the internal audit function appropriately plan for, acquire, deploy and develop an appropriate and sufficient range of skills and knowledge that will enable delivery of the internal audit strategy?

Table 4.A: Assessment of Progress

Level 1: Emerging ☐	Level 2: Developing ☐	Level 3: Operating ☐	Level 4: Maturing ☐	Level 5: Exemplar ☐
It is recognised that internal audit is not appropriately resourced with sufficient staff that have the right knowledge and skills to enable the audit strategy to be achieved.	A strategy to recruit/ /contract-out/implement a partnership or a training programme for existing staff is being developed to acquire the required resources and to develop the skills required to meet the audit strategy. The resourcing needs of internal audit in respect of both numbers and skills has been identified.	The Head of Internal Audit is professionally qualified (i.e.: holds CMIIA, CCAB or equivalent professional membership). The internal audit activity collectively possesses or has plans to obtain the knowledge, skills and other competencies needed to perform its responsibilities to deliver the audit strategy.	The Head of Internal Audit is professionally qualified (i.e.: holds CMIIA, CCAB or equivalent professional membership). Internal audit function has adequate staff in terms of both numbers and skills to deliver the audit strategy and demonstrable commitment to continuing professional development.	The Head of Internal Audit is professionally qualified (i.e.: holds CMIIA, CCAB or equivalent professional membership). Internal audit function has adequate staff in terms of both numbers and skills to deliver the audit strategy and demonstrable commitment to continuing professional development. There are also innovative succession plans in place to support the needs of the audit function and personal development of staff.

Evidence

Action Plan	Target Date

Does internal audit have appropriate resources to deliver its objectives?

- Is internal audit sufficiently resourced (in terms of staff and budget available) and deployed effectively to achieve the approved plan and deliver a positive reasonable assurance on risk, control and governance? If not, is there an action plan for how the internal audit function intends to meet any shortfall?
- Does the Audit Committee discuss and give advice to the Accounting Officer on the resourcing of the internal audit function? If there is a resource shortfall that will prevent the Accounting Officer being provided with a full annual opinion, then the consequences must be brought to the attention of the Audit Committee and accepted by the Accounting Officer?
- Is there a recruitment strategy that sets out the recruitment standard to ensure that all staff have the appropriate intellectual qualities, personal attributes and qualifications? Does the strategy reflect the desire to have internal auditors from diverse backgrounds?
- Is there a retention strategy that clearly sets out how the unit will try to retain skilled staff?
- Is there is a succession plan to ensure that vacancies are filled promptly by appropriately qualified staff?
- Is outsourcing used to fill any gaps in audit coverage?

Does the internal audit function possess collectively the knowledge and skills required to achieve the audit strategy and to deliver the periodic plan?

- Has consideration been given to the technical expertise, qualifications and experience required by the internal audit function to ensure assurance can be provided in all areas of the business?
- Does the HIA hold a full professional qualification (i.e. MIIA, CCAB or equivalent professional membership)?
- Do the skills required to meet the overall audit objectives match with the skills held by the staff of the internal audit function? Is there:
    - A documented skills register identifying the skills needed to meet the identified audit need?
    - A documented skills register identifying the skills of staff in post?
    - A unit-training plan to meet any gap between the two skills registers?
- Do internal auditors have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation?

- Do internal auditors have sufficient knowledge of key information technology risks and controls and available technology - based audit techniques to perform their assigned work? If not is the capability available via co- sourcing arrangements?
- Is there appropriate administration support for internal auditors/audit managers?
- Are internal audit staff empowered to identify opportunities that will better deliver aims and objectives?
- Where there is a contracted out or partnership arrangement, is there provision in the contract to ensure that employees with the appropriate skills are engaged to deliver assurance work? Is there ongoing monitoring to ensure that contractors continually have the skills required for designated audit assignments?

Is provision made to ensure that the internal audit function has the appropriate internal audit knowledge, experience and skills?

- Are all audits led or supervised by suitably competent individuals?
- Does the recruitment strategy give consideration to developing suitably competent individuals to lead and supervise audits?
- Do all internal auditors undertake Continuing Professional Development (CPD)? Do staff keep a record of all such training planned and undertaken?
- Do all staff have a training and development plan identifying training that they need to undertake either as part of their own development or to ensure that the internal audit function has the skills required to meet the audit plan? Is the plan authorised/monitored/regularly reviewed?
- Does the internal audit function maintain a central record of all training undertaken and achievements in the unit?
- Does the audit planning include a sufficient time provision for training (including CPD) for all staff?
- Do all new staff receive induction training including both the internal audit function and induction into the organisation?
- Are arrangements in place to ensure that new staff receive an early assessment of their development needs and appropriate guidance, training etc to quickly address these needs?
- Are Staff deployed on assignments to enable them to both capitalise on their existing skills and to develop their skills further?
- Is there a process in operation whereby experienced staff can mentor less experienced staff on audit or consultancy assignments?
- Do HIA/Senior Audit Managers ensure that all staff are aware of the audit unit objectives especially on quality standards and that they are cascaded down into personal objectives for all staff?
- Do all staff attend regular team meetings, staff conferences to ensure that they remain up to date on knowledge of the organisation, the internal audit function and audit practices? Do staff have the opportunity to give input on topics to be discussed at staff meetings/staff conferences and to give feedback on events held?

- Does the internal audit section have systems in place to facilitate knowledge and sharing of best practice/organisational learning?
- Do skills transfers take place when consultants or contractors with specific expertise work within audit teams?
- Are staff being developed to fulfil their full potential?

Box 4.B: Associated References

Government Internal Audit Standard:

1210 Proficiency

1230 Continuing Professional Development

5 Audit processes and resources

Do the internal audit processes and resources promote an effective and efficient internal audit function?

Table 5.A: Assessment of Progress

Level 1: Emerging ☐	Level 2: Developing ☐	Level 3: Operating ☐	Level 4: Maturing ☐	Level 5: Exemplar ☐
There is awareness of the need to develop appropriate internal audit processes.	Internal audit processes and resources are being developed in accordance with GIAS and good practice.	The internal audit function is adequately equipped with audit processes and resources that allow the function to perform its responsibilities competently and in accordance with GIAS.	Efficient audit processes and use of resources are fully embedded in the internal audit function, significantly improving its performance and capabilities. Processes regularly subjected to review with the objective of continuous improvement.	Cutting edge and innovative working processes. Fully embedded end to end in organisations governance processes. The internal audit activity is recognised as a role model by others in the profession.

Evidence

Action Plan	Target Date

Does the audit processes allow for an effective and efficient internal audit function by:

- Has the HIA established policies and procedures to guide the internal audit activity (the form and content will be dependent upon the size and structure of the internal audit activity and the complexity of its work)?
- Is the work performed by trainee auditors subject to comprehensive supervision to ensure that it meets the standards set for audit/consultancy work?
- Is the internal audit service continually reviewing and updating the methodologies used in line with current practice?
- Does the HIA co-ordinate internal audit work with the work of others especially line managers, external audit and other review mechanisms to ensure that disruption to business areas is kept to a reasonable level?

Planning

- Does the internal audit service have detailed assignment plans, setting out the scope, objectives, resources, targets, timing and reporting lines for each assurance and consultancy assignment?
- Is there a named "sponsor" for each assignment of a sufficient grade to agree the audit recommendations and be accountable for the implementation programme?
- Is there an initial meeting with the audit client to discuss the scope and objectives, audit fieldwork and agree report format and timing?
- Does internal audit work include the following considerations in the planning stage:
    - The objectives of the activity being reviewed and the means by which the activity controls its performance?
    - The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level?
    - The adequacy and effectiveness of the activity's risk management and control processes compared to a relevant control framework or model? and
    - The opportunities for making significant improvements to the activity's risk management and control processes?
- Have the engagement objectives been designed with consideration of the risks relevant to the activity under review, probability of significant errors, fraud, non-compliance and other exposures?
- Does the scope of the engagement include consideration of the relevant systems, records, personnel and physical properties, including those under the control of third parties?
- Do Internal auditors establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations? For significant engagements, is this understanding documented?
- Do consulting engagement objectives address governance, risk and control processes to the extent agreed upon with the client?

Engagement Work Programme

- Do internal auditors develop and document work programmes that will achieve the engagement objectives?
- Do work programmes include the procedures for identifying, analysing, evaluating and documenting information during the engagement? Is the work programme approved prior to its implementation, and are any adjustments approved promptly?
- Are all internal auditors using standard documentation to ensure that evidence and findings are adequately documented, a systematic and structured approach is used and that there is consistency of approach?

Performing the Engagement

- Is there evidence that internal auditors are identifying, analysing, evaluating and documenting sufficient information to achieve the engagement's objectives?
- Is there evidence to confirm that engagements are properly supervised to ensure that objectives are achieved, quality is assured and staff is developed?
- Is there evidence that managers are kept fully informed of the audit progress and are promptly notified of any likely delays?
- Has the HIA developed retention requirements for engagement records, consistent with the organisation's guidelines and any pertinent regulatory or other requirements?
- Has the HIA developed policies governing the custody and retention of consulting engagement records as well as their release to internal and external parties? Are these consistent with the organisation's guidelines and any pertinent regulatory or other requirements?

Communicating results

- Are the engagements objectives and scope, conclusions, recommendations and action plans communicated to parties who can ensure that the results are given due consideration?
- Are communications accurate, objective, clear, concise, constructive and timely?
- Does the final communication of engagement results, where appropriate, contain the internal auditor's overall opinion and/or conclusions?
- Is there a procedure to deal with errors and/or omissions contained in a final communication? Does it ensure that everyone who received the original communication receives the new one?
- Is there a follow up procedure that ensures agreed recommendations are implemented effectively or that senior management has accepted the risk of not taking action?
- Is there an escalation process for the HIA to inform the Audit Committee and Accounting Officer if he/she believes that senior management has accepted a level of residual risk that may be unacceptable to the organisation?
- Do individual auditors / audit teams circulate their reports within the unit to ensure that their colleagues have a clear overall view of the wider control environment?

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

Nature of Work

- Does the Internal Audit Activity evaluate and contribute to the improvement of governance, risk management and control processes, using a systematic and disciplined approach?

Governance

- Does the internal audit activity assess and make appropriate recommendations for improving the governance in its accomplishment of the following objectives:
    - Promoting appropriate ethics and values within the organisation?
    - Ensuring effective organisational performance management and accountability?
    - Communicating risk and control information to appropriate areas of the organisation? and
    - Coordinating the activities of, and communicating information among, the board, external and internal auditors and management?
- Does the internal audit activity evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities?
- Does the internal audit activity assess whether the information technology governance of the organisation sustains and supports the organisation's strategies and objectives?
- Are the consulting engagement objectives consistent with the overall values and goals of the organisation?

Risk Management

- Does the internal audit activity evaluate the effectiveness and contribute to the improvement of risk management processes?
- Does the internal audit activity evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:
    - Reliability and integrity of financial and operational information?
    - Effectiveness and efficiency of operations?
    - Safeguarding of assets? and
    - Compliance with laws, regulations and contracts?
- Does the internal audit activity evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk?

Does the internal audit activity consider risk management during consultancy engagements?

- During consulting engagements, do internal auditors address risk consistent with the engagement's objectives and are they alert to the existence of other significant risks?
- Do internal auditors incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes?
- When assisting management in establishing or improving risk management processes, do internal auditors make it clear that they do not assume any management responsibility for managing risks?

Control

- Does the internal audit activity assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement?
- Does the internal audit activity evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:
    - Reliability and integrity of financial and operational information?
    - Effectiveness and efficiency of operations?
    - Safeguarding of assets? and
    - Compliance with laws, regulations, and contracts?
- Do Internal auditors ascertain the extent to which operating and programme goals and objectives have been established that conform to those of the organisation?
- Do Internal auditors review operations and programmes to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programmes are being implemented or performed as intended?
- During consulting engagements, do internal auditors address controls consistent with the engagement's objectives and are they alert to significant control issues?
- Do internal auditors incorporate knowledge of controls gained from consulting engagements into the evaluation of the organisation's control processes?

Box 5.B: Associated References

Government Internal Audit Standard:

- 2200 – Engagement planning
- 2210 – Engagement objectives
- 2220 – Engagement scope
- 2240 – Engagement work programme
- 2300 – Performing the engagement
- 2400 – Communicating results
- 2440 – Disseminating results
- 2500 – Monitoring progress
- 2600 – Resolution of senior management's acceptance of risks

HM Treasury's Good Practice Guidance: Delivering Audit Assignments; A Risk Based Approach

6 Other assurance providers

Does the internal audit function effectively engage with appropriate assurance providers to reduce the burden of audit and ensure the Board receives overall assurance?

Table 6.A: Assessment of Progress

Level 1: Emerging ☐	Level 2: Developing ☐	Level 3: Operating ☐	Level 4: Maturing ☐	Level 5: Exemplar ☐
The internal audit function is aware of the need to develop co-operation with other assurance providers including External Audit.	Approaches for co-ordinating the work of all assurance providers are being developed and implemented.	Internal audit adequately co-ordinates with both external audit and other assurance providers.	Internal audit co-ordinates with both external audit and other assurance providers with demonstrable value to the benefit of the organisation.	Arrangements are in place to co-ordinate, monitor and place informed and validated reliance on work undertaken by other assurance providers including external audit as part of a coherent assurance landscape.
Evidence				
Action Plan			**Target Date**	

Does internal audit engage effectively with other assurance providers?

- Has the internal audit service explored and developed, as appropriate, opportunities to exchange findings with and place reliance on, the work of others (within constraints of professional requirements, standards and operational restrictions)?
- Does internal audit have a procedure in place to promote co-operation between internal and external audit (In accordance with the principles set out in the Good Practice Guide published by HM Treasury and National Audit Office)?

- Is there a strategy for appropriate communication between all assurance providers?
- Does the HIA meet regularly with the heads of the other assurance providers?
- Does internal audit discuss their periodic plan with other assurance providers to ensure that the most effective audit coverage is achieved and duplication of effort is minimised?
- Does the HIA receive copies of third party assurance reports?
- Does internal audit have documented procedures and standards for placing reliance on the work of other bodies, other internal audit providers and cross departmental review bodies?

Monitoring and reviewing performance

- Does internal audit receive regular information from assurance providers (key issues, emerging risks/control weaknesses), to allow them to monitor and review the performance of all assurance providers involved?
- Have the respective roles and responsibilities of the involved parties been clearly defined and agreed with each Accounting Officer when internal audit needs to work with other internal auditors from another organisation?
- Are there procedures in place to identify and gain an overview of the work of other assurance providers?
- Does internal audit have sufficient rights of access to obtain appropriate information from other assurance providers if required?
- Is there an effective quality assurance process that is applied to work undertaken by other assurance providers before reliance on the work is placed?
- Does the internal audit function have guidance on the need for a consistent and common approach to internal audits that cut across organisational boundaries?

Box 6.B: Associated References

Government Internal Audit Standard:

2050 Co-ordination

HM Treasury's Good Practice Guidance: Co-operation Between Internal and External Auditors

7 Outputs/audit products

Are audit products effective in communicating audit opinions and advice to various levels of the organisation?

Table 7.A: Assessment of Progress

Level 1: Emerging ☐	Level 2: Developing ☐	Level 3: Operating ☐	Level 4: Maturing ☐	Level 5: Exemplar ☐
Awareness that current audit products are not making an appropriate contribution to the objectives of the organisation	Plans are being developed and implemented to provide appropriate audit products	The internal audit activity adequately communicates audit opinions and advice, in a timely manner.	Audit products are communicated expertly, are well received and understood. A system of continuous improvements is also in evidence.	Innovative, cutting edge methods of communicating the audit products to audit clients.
Evidence				
Action Plan			**Target Date**	

Is audit reporting effective?

- Has the HIA set local standards and procedures for the reporting of audit findings including those to ensure that:
  - Key documentation is reviewed by a senior member of the audit function to ensure that the audit has been carried out in sufficient depth, covering the set scope, and to the appropriate quality standard, prior to audit findings being given to the auditee/client?
  - Audit closure meetings are held at the end of each audit to discuss audit findings?

- Discussions with management about interim and draft reports are documented on audit files to demonstrate that they have been fully consulted about emerging findings and proposed recommendations?
- All audit reports, for each assignment, are issued in a format, medium, and timescale agreed with the sponsor?
- The written report is a clear and concise record of the audit assignment and should at least include a description of the objectives of the business area covered during the assignment, the risks being examined, an evaluation of the adequacy and effectiveness of risk management and mitigating controls, an audit opinion, any recommendations for improvement (or agreed actions) and any good practice identified or wider lessons that could be learned?
- Audit reports are security classified in accordance with the classification of the subject material?
- A system for grading any weaknesses found is used to enable management to prioritise key areas in the implementation programme?
- There is an escalation procedure for dealing with significant audit findings/recommendations, and that these are fully documented?
- Where disagreement continues, the audit finding remains in the report for discussion as appropriate at the Audit Committee?

- Where internal audit has used the work of other review bodies, such as management inspection or compliance teams, during the audit assignment has this been made clear in the audit report?
- Where internal audit has worked jointly with other internal auditors from another organisation, has this been made clear in the report?
- Does the HIA ensure that final results are communicated to parties who can ensure that they are given due consideration?
- Are the principles of assignment reporting applied equally to consulting engagement (although, communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client)?
- During consulting engagements, governance, risk management and control issues may be identified. Where these issues are significant to the organisation, are they communicated to senior management and the board?
- Are summary reports of overall audit/consultancy activity made to the Accounting Officer and / or Audit Committee at least quarterly advising them of emerging issues and trends in the governance, risk management, and control processes (these summary reports are the "building blocks" of the Annual Audit Report and should include any significant issues, specific advice and opinion relevant to the preparation of the Statement on Internal Control made by the Accounting Officer)?
- Is a summary provided to the AO/Audit Committee Chair of the recommendations agreed to and the progress of implementing them?
- Does the HIA present, at least annually, a report of internal audit activity containing an opinion of the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes to the Accounting Officer

and / or Audit Committee. Does the report draw attention to significant issues particularly relevant to the Accounting Officers preparation of their Statement on Internal Control and compare actual audit activity with that planned? Does the annual report fully meet the requirements of the Accounting Officer?

- The Accounting Officer/Board/Audit Committee have fully considered the assurance given by internal audit and based their decisions on the assurance given?
- The Statement of Internal Control realistically reflects the internal audit assurances provided?

Resolution of senior management's acceptance of risks

- When the HIA believes that senior management has accepted a level of residual risk that may be unacceptable to the organisation, does the HIA discuss the matter with senior management? If the decision regarding the residual risk is not resolved, does the HIA report the matter to the Audit Committee for resolution?

Is the identification and capturing of soft products effective?

- Is the HIA kept up to date of changes and projects in the organisation and does he/she direct audit activity as appropriate?
- Does internal audit add value by promoting good practice throughout the organisation?
- Is a record kept of all material ad-hoc advice and guidance given?

Quality Assurance

- Has the HIA developed and maintained a quality assurance and improvement programme that covers all aspects of the internal audit activity, including internal and external assessments to ensure compliance with GIAS and achievement of objectives?
- Are Internal Quality reviews undertaken periodically with the results documented and an action plan produced to address any weaknesses identified? Are results appropriately communicated upon completions of such assessments?
- Are External Quality reviews undertaken at least every five years by appropriately qualified and independent reviewers under arrangements agreed with the sponsor who must be the Accounting Officer? Has the HIA developed a programme for addressing any weaknesses identified and agreed an action plan with the Accounting Officer? Is progress against any such plan reported upon in the annual audit report?
- Does the HIA review and evaluate the work of the internal audit function to seek assurance that due professional care is exercised? Are the results of the review documented?
- Are other Quality Assurance mechanisms such as ISO 9000 or the Business Excellence Model used by the internal audit function to enhance assurance about the quality of their work?

Box 7.B: Associated References

Government Internal Audit Standard:

- 1300 – Quality assurance and improvement programme
- 1310 – Requirements of the quality assurance and improvement programme
- 1311 – Internal assessments
- 1312 – External assessments
- 1320 – Reporting on the quality assurance and improvement programme
- 2600 – Resolution of senior management's acceptance of risks

HM Treasury's Good Practice Guidance: Reporting

HM Treasury's Good Practice Guidance: Delivering Audit Assignments; A Risk Based Approach

8 Outcomes

- Audit impact on governance, risk and control
- Impact on organisation delivery

Does the Accounting Officer/Audit Committee believe it is sufficiently assured and supported in decision-making by the work of internal audit?

Does internal audit advice lead to change that impacts on management of the organisations risk priorities?

Table 8.A: Assessment of Progress

Level 1: Emerging	Level 2: Developing	Level 3: Operating	Level 4: Maturing	Level 5: Exemplar
☐	☐	☐	☐	☐
Awareness that the internal audit service is not having an impact on risk, control and governance within the organisation.	Developing a plan to improve or change the internal audit service and products to have an improved impact on the risk, control and governance within the organisation.	Improvements in risk, control, governance, and organisational performance can be linked to audit work.	Evidence that internal audit's contribution is valued by the Board to an extent whereby they actively make use of internal audit to achieve performance improvement.	There is evidence that internal audit in this organisation is routinely providing assurance and advice that directly helps the organisation to achieve its objectives. It is recognised as being exemplar of what the profession can achieve.

Evidence

Action Plan	Target Date

Is there evidence that:

- The internal audit activity is performed in accordance with GIAS?
- The internal audit activity is effectively managed and has demonstrated that it adds value to the organisation?
- Top level management trusts and values the advice of the HIA and the internal audit service?
- The internal audit service is seen as a key strategic partner throughout the organisation?
- The internal audit activity is completely independent of executive responsibilities, and has unrestricted access throughout the organisation?
- Senior managers understand and fully support the work of internal audit?
- Internal audit is valued throughout the organisation?
- The internal audit function focuses on the key issues that concern the Board/Accounting Officer/ Audit Committee?
- The audit strategy was appropriate to deliver a positive reasonable assurance (including highlighting any issues) on governance, risk, and control?
- Internal audit work was focussed on the right areas – did not duplicate the work that other assurance providers undertake?
- The periodic plan was fully achieved?

Effective monitoring and reviewing of outcomes?

- Is relevant feedback (including wherever possible face to face meetings) on the performance, effectiveness, quality and added value provided by the internal audit service obtained yearly from:

  a Audit Committee?

  b Accounting Officer and Board?

  c External Audit?

- Are manager's views on how the assurances /consultancy assignment was carried out obtained after each assignment has been completed? Face to face meetings are beneficial but if not possible, is the information requested adequate to give a good picture of how the internal audit team/auditor performed?
- Are the results of the feedback considered and action taken on any key weaknesses highlighted?
- Are the results of the feedback reported to and reviewed by the Audit Committee?
- Have there been any significant control breakdowns or surprises in areas that have been positively assured by the internal audit function? If so, has the HIA reviewed the audit work undertaken to ensure that it was carried out with due professional care?
- Does the internal audit service ensure that recommendations made are cost effective and proportionate to the risk?

- Are attempts made to quantify the impact/benefit of internal audit recommendations/advice?
- Is there an agreed (with the Audit Committee) set of performance indicators against which the internal audit service monitors its work and reports regularly to the Audit Committee? Have targets set been achieved?
- Has the performance of the internal audit service been benchmarked against best practice? Do results compare well with others and/or results compare well with acknowledged world class?

Has internal audit had a positive impact on Governance, Risk, and Control?

- Is the Audit Committee kept informed of how many recommendations have been implemented and whether the implementation has been effective or not?
- Is there evidence of internal audit advice having a positive impact on the governance, risk, and control of the organisation?
- Does the HIA present a summary in their annual report of how they believe they have positively impacted on the organisation?
- Is there evidence that the internal audit activity has enhanced organisation-wide understanding of governance, risk, and control?
- Is the internal audit function actively educating managers in governance, risk, and control issues?
- Is there evidence that the internal audit function raises significant control issues at an appropriate level in the organisation? (Getting the Outputs properly targeted)
- Is there evidence that the internal audit function strives to provide a continuously improving service?
- Does the Internal audit activity ask powerful questions that stimulate debate leading to improvements in key risk areas?
- Has the internal audit activity achieved organisation-wide respect for demonstrating value in anticipating the organisation's needs and contributing to the achievement of strategic and organisational objectives?

Is there evidence of linkage between internal audit work/recommendations and improvements in?

- Public services (delivery to meet commitments e.g. to quality, coverage, timeliness, with few errors, etc; potential disruptions to delivery anticipated and avoided/addressed/mitigated etc)?
- Project success?

Has the internal audit activity made a positive impact on organisational delivery?

- Do the Accounting Officer and stakeholders believe that internal audit has contributed to improvements in organisational delivery?
- Does the organisation accept and use the business knowledge of internal auditors to help improve business processes and meet strategic objectives?

- Is the internal audit activity recognised as influencing positive change and continuous improvement to business processes, bottom line results and accountability within the organisation?

A Overall summary of progress

	Emerging	Developing	Operating	Maturing	Exemplar
Level	1	2	3	4	5
Governance and Leadership					
Independence					
Audit Strategy					
People, Knowledge and Skills					
Audit Processes and Resources					
Other Assurance Providers					
Outputs					
Outcomes					

B Overall action plan

	Action	Target Date
1		
2		
3		
4		
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7		
8		
9		
10		

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This document can be found in full on our website: http://www.hm-treasury.gov.uk

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