



INTERNAL AUDIT COMMUNITY OF PRACTICE

GOOD PRACTICE INTERNAL AUDIT MANUAL TEMPLATE

Europe and Central Asia

PEM  PAL

GOOD PRACTICE INTERNAL AUDIT MANUAL TEMPLATE

Europe and Central Asia

May 2012

CONTENTS

PREFACE

ACKNOWLEDGEMENT

ACRONYMS

INTRODUCTION

1. INTERNAL AUDIT FUNCTION – FUNDAMENTALS

- 1.1. Definition of Internal Audit
 - 1.1.1. Internal Audit, Fraud and Corruption
 - 1.1.2. Internal Audit and Other Areas of Financial Management and Control
- 1.2. Requirement for Internal Audit
 - 1.2.1. Legal and Regulatory Requirement
 - 1.2.2. Legislative and Oversight Bodies
 - 1.2.3. Responsibilities and Mandate
- 1.3. Authority, Organization and Interaction with Others
 - 1.3.1. Authority and Rights of Access
 - 1.3.1.1. Authority
 - 1.3.1.2. Rights of Access
 - 1.3.2. Organizational Structure
 - 1.3.3. Interaction with Others
 - 1.3.3.1. Senior Management
 - 1.3.3.2. Audit Committee
 - 1.3.3.3. Supreme Audit Institution
 - 1.3.3.4. External Audit
 - 1.3.3.5. Audit Authority
 - 1.3.3.6. Central Harmonization Unit
 - 1.3.3.7. Budget Spenders
 - 1.3.3.8. Other Assurance Providers
 - 1.3.3.9. External Experts
 - 1.3.3.10. Law Enforcement Authorities
 - 1.3.3.11. Financial Inspection Services
- 1.4. Scope of Services

2. INTERNAL AUDIT POLICIES

- 2.1. Overview
- 2.2. Professional Ethics
- 2.3. Professional Standards
- 2.4. Professional Responsibilities
 - 2.4.1. Independence
 - 2.4.2. Objectivity
- 2.5. Proficiency and Due Professional Care
 - 2.5.1. Proficiency
 - 2.5.1.1. Qualification
 - 2.5.1.2. Recruitment
 - 2.5.1.3. Competency
 - 2.5.1.4. Training and Continuing Professional Development
 - 2.5.1.4.1. Training
 - 2.5.1.4.2. Continuing Professional Development
 - 2.5.1.5. Objectives Setting and Performance Evaluation
 - 2.5.1.6. Career Planning
 - 2.5.1.7. Co-Sourcing Arrangements
 - 2.5.2. Due Professional Care

3. INTERNAL AUDIT PROCEDURES

- 3.1. Planning
 - 3.1.1. Audit Universe
 - 3.1.2. Risk Assessment Methodology
 - 3.1.3. Strategic Audit Plan
 - 3.1.4. Annual Audit Plan
 - 3.1.5. Annual Audit Budget
 - 3.1.6. Coordination with Other Assurance Providers
- 3.2. Execution
 - 3.2.1. Engagement Planning
 - 3.2.1.1. Staffing the Audit
 - 3.2.1.2. Opening Meeting

- 3.2.1.3. Tools
- 3.2.1.4. Preliminary Survey
- 3.2.2. Audit Objectives and Audit Scope
- 3.2.3. Audit Program
- 3.2.4. Audit Field Work
 - 3.2.4.1. Working Papers
 - 3.2.4.2. Executing the Audit Program
 - 3.2.4.2.1. Audit Approaches
 - 3.2.4.2.2. Internal Audit Techniques
 - 3.2.4.2.3. Internal Control Assessment
 - 3.2.4.2.4. Audit Evidence
 - 3.2.4.2.5. Supervising the Audit
 - 3.2.4.2.6. Fact-Finding Sheet
 - 3.2.4.2.7. Closing Meeting
- 3.2.5. Reporting on Internal Audit Engagement
 - 3.2.5.1. Intermediary Report
 - 3.2.5.2. Draft Report
 - 3.2.5.3. Final Report
 - 3.2.5.4. Reporting to Authorities in Case of Irregularities (Fraud)
 - 3.2.5.5. Follow-up on Audit Report Recommendations
 - 3.2.5.6. Activity Reports
 - 3.2.5.7. Annual Audit Opinion (Statement of Assurance)
- 3.2.6. Record Retention

4. QUALITY CONTROL

- 4.1. Quality Program
- 4.2. Audit Entity Survey
- 4.3. Ongoing Supervision
- 4.4. Key Performance Indicators
- 4.5. Internal Quality Assessments
- 4.6. External Quality Assessments

5. PROMOTION OF INTERNAL AUDIT AND KNOWLEDGE MANAGEMENT

- 5.1. Promotion of Internal Audit
- 5.2. Knowledge Management
 - 5.2.1. File Organization
 - 5.2.2. Benchmarking
 - 5.2.3. Glossary of Terms
 - 5.2.4. Public Expenditure Management Peer-Assisted Learning (PEM-PAL)
 - 5.2.5. The Institute of Internal Auditors (IIA)
 - 5.2.6. Membership

APPENDICES

- Appendix 1
Structure of the Strategic Audit Plan

- Appendix 2
Structure of the Annual Audit Plan

- Appendix 3
Structure of the Final Audit Report

- Other Potential Appendices

PREFACE

This template is the product of a process of exchange of ideas and information among members of the Internal Audit Community of Practice (IA CoP), of the Public Expenditure Management Peer-Assisted Learning (PEM-PAL) network.

The PEM-PAL network, launched in 2006 with the help of the World Bank, is a regional body that aims to support reforms in public expenditure and financial management in twenty countries in Central Asia and Central Eastern Europe by promoting capacity building and exchange of information. IA CoP, one of the three Communities of Practice around which the network is organized, has representatives from 21 countries of the Europe and Central Asia region.

In its 2010-2012 Strategic Plan, IA CoP set out to have members share their internal audit manuals, learn about differences and similarities and develop a good practice internal audit manual template that could be shared among its members. The purpose of this strategic objective was to assist member countries to establish or improve an internal audit function. This template is the end result of an extensive collaborative process, which included participation from member countries, partners and donors organized in the Internal Manual Development Working Group under the IA CoP. It is the hope of the PEM-PAL network and IA CoP that users of this template will find it informative and useful in advancing the reforms of public sector internal audit.

ACKNOWLEDGEMENTS

This template was the combined effort of a number of individuals and groups who shared their time and expertise to make it a reality.

Specifically, IA CoP would like to recognize the following key contributors:

Albana Gjinopulli, Albania, Acting Vice-President on the Content of the IA CoP and Group Leader on Execution and Tools

Arman Vatyan, World Bank, Lead of IA CoP

Cristina Scutelnic, Moldova, Acting Vice-Chair on Operations of the IA CoP and Group Leader on Reporting, Knowledge Management and Interaction with Others

Jasenska Mičetić, Croatia, Group Leader on Planning and People

Jean-Pierre Garitte, OECD/SIGMA

Joop Vrolijk, OECD/SIGMA

Ljerka Crnković, Croatia, Acting Chair of the IA CoP and Group Leader on Fundamentals and Quality Control

Tomas Mičetić, former Chair IA CoP

ACRONYMS

CAE	Chief Audit Executive
CHU	Central Harmonization Unit
EC	European Commission
EU	European Union
FMC	Financial Management and Control
GAIN	Global Audit Information Network
HR	Human Resources
IA CoP	Internal Audit Community of Practice
IIA	Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
IPPF	International Professional Practices Framework
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
NAO	National Audit Office
OECD	Organisation for Economic Co-Operation and Development
OLAF	European Anti-Fraud
PEM-PAL	Public Expenditure Management Peer Assisted Learning
SAI	Supreme Audit Institution
SIGMA	Support for Improvement in Governance and Management

INTRODUCTION

This Internal Audit Manual template is designed to serve as a reference guide, which can be used to assist internal audit professionals in the public sector to prepare an internal audit manual for their organization. It has a modest aim of providing good practice recommendations on how to approach the important task of producing such a manual, in order to further strengthen internal audit in the public sector and promote good corporate governance and accountability.

The template is not meant to be prescriptive, and users should bear in mind that the structure and content of the final manual will be dependent upon the size and complexity of the organization. Most importantly, it is ideal to ensure that the manual is based on internationally recognized and relevant local standards, as well as current best practices. Audit manuals are living documents that must adapt to changes with time. Therefore, the manual should be revised and updated periodically where substantial changes occur in the legal and regulatory framework, professional standards, codes of ethics, and internal audit policies and procedures. While there was no prescribed method of ordering the sections in this template, every effort was made to provide a systematic and logical flow, beginning with the fundamentals of internal auditing, through the internal audit process, and concluding with ideas on sharing and managing knowledge. In each section, every effort was made to ensure that recommendations were based on key principles set forth in the Institute of Internal Auditor's *International Professional Practices Framework*, and current international best practices.

This template should be viewed as a work-in-progress of the Internal Audit Community of Practice (IA CoP), one of three Communities of Practice (CoPs) of the Public Expenditure Management Peer-Assisted Learning (PEM-PAL) network. Therefore, the template will be revised periodically to incorporate new ideas, developments and emerging best practices in the internal auditing community.

1. INTERNAL AUDIT FUNCTION - FUNDAMENTALS

1.1. Definition of Internal Auditing

The definition of internal audit at the beginning of the manual serves as the unifying backbone of the entire document. The definition should clearly establish the aims and parameters, which will guide the policies and procedures that are outlined in the manual.

There are multiple sources of definitions of internal audit, including that of the Institute of Internal Auditors (IIA). Whatever definition is chosen must include, at a minimum, a reference to the independent and objective nature of this function, along with the goal of assisting the organization in achieving its objectives as they relate to risk management, control and governance.

1.1.1. Internal Audit, Fraud and Corruption

Given that there is often some confusion regarding internal audit, fraud and corruption, the role of internal audit with regard to fraud and corruption should be explained.

Although internal audit's assurance can have a serious impact on the prevention and detection of fraud, internal audit is never responsible for any type of fraud or anti-corruption program (awareness, prevention, detection, investigation). Nevertheless, it can play an important role in any of them in an advisory or consulting capacity as part of fraud awareness exercises, or providing advice in a fraud investigation because of its expertise in the controls area.

In an environment in which there is an expectation of internal audit undertaking responsibility in either of these areas, it is good practice to describe in detail the relationship between internal audit (third line of defense) and those with existing responsibilities with regard to fraud and corruption (first or second line of defense).

1.1.2. Internal Audit and Other Areas of Financial Management and Control

If there are existing ambiguities, or it is expected that ambiguities may arise, between the role of internal audit and other areas of Financial Management and Control, then an explanation of risk and control concepts, including ownership is recommended. Reference can be made to the three-lines-of-defense model,

whereby differences can be explained between: the first line of defense (internal control measures and management supervision; the second line of defense (supporting functions such as financial inspection, risk management, and quality control); and the third line of defense (internal audit).

In addition, a clear definition of inspection and an explanation of its relationship to internal audit should be provided.

1.2. Requirement for Internal Audit

The requirement for an organization to have an internal audit function depends on the regulatory or legislative stipulations concerning the entity.

1.2.1. Legal and Regulatory Requirement

The manual must clearly outline the legal and regulatory requirement for internal audits. Legal and regulatory requirements are typically found in various Acts of Parliament, Ministerial Orders, Directives, and Statutory Instruments. Specific reference should be made to the relevant laws and regulations, including European Legislation (if applicable). Subsequent changes to the regulatory framework should be incorporated.

All public sector entities (budget spenders) that fall into the scope of internal audit according to the regulatory framework must be included.

1.2.2. Legislative and Oversight Bodies

The manual should clearly state the legislative and oversight bodies to which the internal audit function is subject or to which it has a specific relationship.

Due consideration should be given to outlining the relationships with relevant ministries (example Ministry of Finance), the Central Harmonization Unit (CHU), the National Audit Office (NAO) or Supreme Audit Institution (SAI). Further, all public sector entities that fall within the scope of internal audit according to the regulatory framework should be included.

The reporting lines of internal audit, both administrative and functional, to senior management, the audit committee (if any), CHU and the parliament should be explained.

Reporting lines outside the organization shall also be mentioned (if applicable).

In addition, it is recommended that this section include a chart, which summarizes these relationships and lines of reporting in order to provide further clarification.

1.2.3. Responsibilities and Mandate

The mandate for internal audit should be detailed in the Internal Audit Charter, which is a formal and comprehensive document.

The responsibilities of the internal audit function should be specifically stated in order to provide a comprehensive rationale for the existence of internal audit separate from that provided by the legal and regulatory framework. Internal audit's role and contribution to the organization should be clearly explained.

The manual should describe how internal audit will assist the organization in achieving its goal and reflect senior management's vision for the organization.

1.3. Authority, Organization and Interaction with Others

While establishing the authority, organization and interaction with others of the internal audit function is important in and of itself, it also has implications for the independence of the internal audit function.

1.3.1. Authority and Rights of Access

In addition to the authority of the internal audit function established in the audit charter, the manual should further elaborate on this authority, including the rights of access to information, people and assets.

1.3.1.1. Authority

The position of internal audit within the organization should be stated and the authority of internal audit should be made clear. This should include the authority invested in the Chief Audit Executive (CAE).

In addition to positional title, the authority of the CAE is highly influenced by perceived and actual status or influence, as well as access to resources. Therefore, the CAE should have a high enough status to have valuable and effective discussion on audit strategies, plans, results and improvement recommendations with senior management. Likewise, adequate budget and other resources should be available to the CAE to oversee and carry out the annual work program. It may be useful to encapsulate these areas in the manual when outlining the authority of internal audit within the organization.

This section shall include the responsibilities of the CAE. They consist of, but are not necessarily limited to, the following duties:

- Ensure that internal audit adds value to the organization
- Develop consistent risk-based audit plans
- Obtain approval from senior management and the audit committee on the

charter, the budget and the plan

- Obtain adequate skills and resources for the planned audit engagements
- Develop adequate detailed audit procedures (in accordance with the internal audit manual)
- Coordinate with other external and internal assurance providers
- Periodically report to senior management, the CHU and the audit committee (if applicable).

1.3.1.2. Rights of Access

Internal auditors have unlimited access to information, people and assets and where this is clearly stated in the internal audit law or the audit charter it should be referenced. The manual shall clarify the situations in which this right is valid, for example, only in the case of the execution of an audit mission. Internal auditors may use audit software or data extraction tools to access data. The manual should detail how to use these tools to accomplish the specified objectives. It should be stated that access shall not occur on live data but on copies and that auditors shall at all times have “read-only” access.

Internal auditors shall always demonstrate respect for the organization’s culture and habits.

It should be stated that with regard to unlimited access to information, internal auditors should adhere to the confidentiality principle in the code of ethics. In addition, access does not necessarily mean that internal audit has the right in all situations to download or copy sensitive or classified information as is the case with the military.

Specify that, with regard to unlimited access to people, internal auditors have the right to interview employees without formally respecting the hierarchical lines.

Outline that, with regard to assets, internal auditors should respect the organization’s procedures to access certain assets. For example, in the case of liquid assets (cash), the organization may wish to provide access only if accompanied by another member of staff.

The manual must also state the steps to be taken when the auditee is denying the right of access to information, people or assets.

1.3.2. Organizational Structure

This section should clarify the way the internal audit function is organized.

The various stakeholders of internal audit (senior management, audit committee, budget spenders, operational management, national audit office, audit authority, and parliament) may be defined.

Specific attention must be given to the various positions, functions and roles within the internal audit function, but only when they exist and are applicable. Positions to consider including are: Head of Internal Audit, Manager, Senior Auditor, Junior Auditor, and Assistant. Some specific functions are: methodology, quality, and information technology (IT) audit. While an engagement role could be team leader. A job description of each applicable position, function, and role should be included so as to comprehensively document tasks and responsibilities.

Specific attention shall be given to situations in which internal audit consists of a small number of people.

1.3.3. Interaction with others

The role of internal audit requires extensive interaction within and outside the organization with multiple groups of individuals and stakeholders. It is prudent to document how such interactions will be managed and conducted.

1.3.3.1. Senior Management

Internal audit is by tradition a management tool, the eyes and ears of management. The role of internal audit with regard to management should be explained, especially with regard to the independence of internal audit.

In addition, the privileged relationship and structured or ad hoc meetings with senior management should be described.

1.3.3.2. Audit Committee

The interaction with the audit committee is still a fairly new phenomenon in the public sector. Nevertheless, when it has been established, the relationship should be described as well as the audit committee's scope of duties and responsibilities.

1.3.3.3. Supreme Audit Institution

The Supreme Audit Institution may rely on the work of internal audit. In many instances, it may want to obtain some assurance on the quality and independence of the internal audit function. The relationship or cooperation with the Supreme Audit Institution should be described.

1.3.3.4. External Auditors

In some cases (for example with regard to state owned companies), internal audit may have to cooperate with external auditors. This relationship and the terms of engagement should be described.

1.3.3.5. Audit Authority

If a country benefits from European Union (EU) funds, internal audit may also have to cooperate with the National Audit Authority that reports directly to the European Commission. This relationship should be described.

Further, if there are any duties related to EU funds, for example in relation to the Audit Authority or European Anti-Fraud Office (OLAF), these should be clearly explained.

1.3.3.6. Central Harmonization Unit (CHU)

The Central Harmonization Unit (CHU) provides guidance on methodology to the internal audit function and monitors the quality of the internal audit function. The specific relationship between the CHU and the internal audit function must be explained in the internal audit manual, especially with regard to what internal audit may or may not expect from the CHU.

1.3.3.7. Budget Spenders

Budget spenders are in principle the audit objects or auditees vis-à-vis the internal audit function. There is sometimes an expectation on the part of budget spenders that internal audit is their consultative body. Therefore, the manual should explain the relationship when it is more than an audit object.

1.3.3.8. Other Assurance Providers

Special relations may be established with other internal assurance providers. Although these other internal assurance providers must also be considered as audit objects, their relationship with internal audit is special because of some coordinated approach to specific risk areas. The manual should detail how the interactions with these providers will be conducted.

1.3.3.9. External Experts

During an audit, internal audit may need to call upon the expertise of external experts or consultants. The relationship with external experts (if applicable) should be described.

1.3.3.10. Law Enforcement Authorities

The relationship of internal audit with law enforcement authorities shall be described, with due consideration given to the specific legal framework of the country.

1.3.3.11. Financial Inspection Services

The relationship between internal audit and the Financial Inspection Services shall be described, taking into consideration the specific legal framework of the country.

1.4. Scope of Services

Internal audit generally provide two main services: assurance (audit services) or consulting (advisory) services. The framework for and approach to both types of services are distinct and the internal audit manual must clearly explain and outline this. Audits can be driven by various objectives:

- Financial
- Regularity

- Compliance
- Operational
- Value for Money
- Systems
- Program Result
- Performance
- IT
- Fraud

The differences in objectives and deliverables in each type of audit should be comprehensively described. Further, it should be emphasized that the final responsibility to follow-up on and implement the results of internal audit activities rests with management.

Consulting services are based on specific requests, and so the process for consulting services must be explained, especially whether a request for consulting services needs to be formalized or whether it can be requested on an informal basis. It shall be made clear in the manual that the final responsibility for implementing advice made by internal audit is with management. Where consulting services relate to internal control it should be made clear that this remains the responsibility of management.

2. INTERNAL AUDIT POLICIES

2.1. Overview

Internal audit professionals are required to behave to the highest ethical and professional standards in conducting and carrying out their work. The internal audit manual must outline in detail the codes of ethics and professional standards to which internal audit will adhere. With regards to codes of ethics and professional standards, the manual should list the various sources providing guidance, which may include but is not limited to: Civil Service Codes, Staff Rules and Regulations, standards promulgated by the IIA, standards issued by INTOSAI and national standard setting bodies, among others.

2.2. Professional Ethics

Internal auditors must operate in conformity with applicable codes of ethics. The Institute of Internal Auditor's (IIA's) Code of Ethics, which form part of the *International Professional Practice Framework (IPPF)*, are mandatory guidance considered essential to the professional practice of internal auditing for all its members. The manual should state whether these will be the code of ethics to be adhered to, and whether they will be supplemented by national professional codes of ethics and the organization's codes of ethics.

Detailed incorporation of the relevant codes may not be needed. A complete rendering of the applicable codes of ethics may be included in an attachment, or links provided to the web-sites where they are maintained.

2.3. Professional Standards

The audit manual should specifically state the professional standards, which will be abided by in fulfilling the responsibilities of all internal auditors and all internal audit activities. These standards shall include the International Standards for the Professional Practice of Internal Auditing as set forth by the IIA.

In addition, the manual should refer to relevant national standards and other applicable standards such as International Standards of Supreme Audit Institutions (ISSAI) issued by INTOSAI.

It is not necessary to include each standard in the manual and an attachment or link to the relevant website would be sufficient. It may not be advisable to incorporate the detailed international standards in national legislation, as these standards are updated on a regular basis, which would in turn require changes to national legislation.

2.4. Professional responsibilities

Independence and objectivity are essential components of effective internal auditing activities. The internal audit charter must establish the organizational independence and authority of internal auditing and reference of this should be made in the manual.

2.4.1. Independence

The manual should outline and explain the functional and administrative reporting lines as well as their related independence issues. Functional relationship includes the scope of internal audit, the approval of annual audit plans and budget. The administrative relationship relates to all employer-employee issues, for example annual leave, and training and travel approval to name a few.

This section of the audit manual should describe processes related to actions involving internal auditors. In doing so, the manual should make a distinction between the actions of the CAE and other internal auditors. In addition, it is recommended that the manual cover: appointment of internal auditors; the setting of objectives and performance evaluation of internal auditors; the promotion of internal auditors; the grades of internal auditors; and the removal of internal auditors.

While internal auditors do not have operational responsibility and therefore cannot tell others in the organization what to do, they do have moral authority. The manual should explain how this perception could be handled.

In principle, internal auditors should be free from any scope limitations. The section of the manual shall specify the process to be followed in any situation whereby a scope limitation is imposed on internal audit.

2.4.2. Objectivity

Objectivity relates to the mental attitude with which the internal auditor approaches the engagement, and the manual should stress the need for an impartial and un-biased attitude at all times. In addition, the manual must outline the critical requirement to avoid conflict of interest situations that would prejudice internal auditors' ability to perform their duties objectively.

2.5. Proficiency and Due Professional Care

The quality, effectiveness and efficiency with which the internal audit is conducted are directly dependent on the skills, knowledge and competency of internal auditors and their exercise of due professional care.

2.5.1. Proficiency

The manual should emphasize that internal auditors must have the knowledge, skills and other competencies to perform their duties. As such, the manual may provide descriptions of the relevant qualifications, recruitment policies, competency framework, training and certification, continuing professional development, objectives setting and performance evaluation, career planning and co-sourcing arrangements that would enhance the proficiency of internal auditors.

2.5.1.1. Qualifications

It is important to pay attention to the required qualifications for internal auditors. These qualifications may be linked to the various levels within the internal audit function. In the public sector, required qualifications are generally supported by legislative acts.

The ability to communicate clearly and effectively is very important to internal auditors. Therefore, soft skills, which relate to communication (interviewing, presentation and reporting techniques) and an analytical way of thinking should be emphasized.

2.5.1.2. Recruitment

Many recruitment models can be used and internal audit functions may recruit talents:

- Directly from university (young graduates),
- From the private sector, with some years of experience,
- From operational departments within the organization to acquire certain technical skills,
- From other public sector organizations.

Recruitment in the public sector varies by country and may be subject to legislation or regulation. Where this is the case, the manual should make mention of the relevant legislation/regulation or provide a link to the web-site.

2.5.1.3. Competency

Depending on the size of the internal audit function, it may be recommended to have a small and pragmatic competency framework included in the internal audit manual. In the case of small internal audit units, a practical approach should be elaborated in the manual.

2.5.1.4. Training and Continuing Professional Development

Initial proficiency in applying internal auditing standards, procedures and techniques need to be continuously developed and improved. The manual should describe the arrangements to be put in place for training and continuing professional development of internal auditors in order to enhance their knowledge, skills and other competencies.

2.5.1.4.1. Training

The manual should outline how staff training will be organized, for example:

- Whether according to a well-developed and balanced internal audit curriculum,
- Whether training courses will be organized internally and/or externally, or
- Whether courses are mandatory for internal auditors.

Global or national certifications may be required by law or by an individual organization. The following global certifications should be recognized:

- Certified Internal Auditor (link to the certifying body should be provided),
- Certification in Control Self-Assessment (link to the certifying body should be provided),
- Certified Information Systems Auditor (link to the certifying body should be provided),
- Certified Financial Services Auditor (link to the certifying body should be provided),
- Certified Government Audit Professional (link to the certifying body should be provided).

2.5.1.4.2. Continuing Professional Development

Once auditors are trained, the organization should take care of the continuing professional development of its internal auditors. The head of the organization has to provide support for the continuing development of internal auditors.

The Head of internal audit unit should ensure that there are opportunities for training in a systematic manner and should develop an annual training plan that is based on the individual needs of each auditor. Training should include access to audit topics as well as areas covering new processes, systems and products within the organization.

The minimum annual training hours per auditor may be indicated in the audit manual.

2.5.1.5. Objectives Setting and Performance evaluation

The internal audit function shall develop its long-term and short-term (annual) objectives in agreement with senior management and the audit committee. Objectives shall also be set for every single internal auditor, and their individual performance shall be measured against these objectives.

2.5.1.6. Career Planning

Some internal auditors make their career inside internal audit and remain there for a long period, while others use internal audit as a stepping stone in their career. In both cases it is essential to develop a proper career plan for all internal auditors.

Where internal audit is being used as a training ground for young talents and future

managers, a proper agreement needs to be reached with senior management and human resources.

This section is optional and depends on the Human Resources (HR) policies of the organization.

2.5.1.7. Co-Sourcing Arrangements

Due to issues of effectiveness, efficiency and economical reasons, the organization may decide to co-source the internal audit function, whereby specialists will be hired to perform part of the (technical) engagement together with the internal audit staff. For all co-sourced internal audit functions an agreement should be drafted. The internal audit function may also call upon guest auditors to temporarily join their team on a specific engagement. Guest auditors should always be independent of the process under audit. It may also be envisaged to set up certain specialized functions (such as IT audit) that may serve more than one organization.

2.5.2. Due Professional Care

Due professional care refers to the degree of care and skill that an internal auditor should apply in conducting internal audit activities, and is a sensitive standard to comply with. It relates to proper diligence and is challenging to describe fully. A lack of professional care may be considered equal to gross negligence and could lead to the disbarment of the CAE (or a subordinate), and in some situations could result in penalties or imprisonment.

Reasonable care does not mean infallibility, though this is often the perception when fraud occurs.

The manual should describe a few items that deserve special attention from the internal auditor. Internal auditors should consider:

- What can go wrong in a specific process?
- How could a person commit fraud?
- What are the key controls and how could they be bypassed?

The manual may provide examples of situations that demonstrate lack of due professional care.

3. INTERNAL AUDIT PROCEDURES

3.1. Planning

Planning provides a systematic approach to the internal audit work and requires knowledge and competency in a broad number of areas such as risk and internal control.

3.1.1. Audit Universe

The audit universe is the starting point for the internal audit plan and includes all things auditable. It is the overall scope of the internal audit function and is the totality of auditable processes, functions and locations. The manual should include a broad clarification of how to approach the audit universe. Approaches may be horizontal (following the flow of a process or transaction, example, the procurement cycle), vertical (following a department's activities or focusing on a remote location, example, all activities within the procurement department only), or a combination of both (a thematic approach in all locations and departments, example, the approval of annual leave).

The manual should describe the process of defining the audit universe, bearing in mind that the detailed audit universe is dynamic, and constantly impacted by new processes, units, projects and risks. Therefore, it is recommended that the detailed universe be included as an annex to the manual.

Components to consider in the process of defining the audit universe may include:

- *Key Processes* - are critical in supporting the organization's objectives. For example, the process of collecting taxes within the Ministry of Finance.
- *Critical Control Areas* - for example, in the purchasing cycle, a critical control area is the three-way match between purchase order, receiving document and invoice.
- *Material Value* – how this principle is being applied for the selection of components in the audit universe must be explained when it is used as a criterion.

It is important to keep various components of the audit universe manageable from an audit perspective. Components that are too large may blur the focus on top risks, while components that are too small may not lead to significant conclusions.

3.1.2. Risk Assessment Methodology

The purpose of risk assessment is for internal audit to give priority to higher risks

for the organization. Therefore, the risk assessment methodology is one of the cornerstones of internal audit activities. It is mandatory to reflect on and to describe the risk assessment process in detail in the manual.

In this section of the manual, note that the methodology should cover:

- Identification and definition of appropriate risk categories
- Identification and definition of risk criteria for impact and probability, which needs to be done ahead of the risk assessment exercise. Consider that probability may be replaced by vulnerability, which might be easier to understand and rate.
- Definition of risk scoring content and an explanation of the rationale for assigning a score of high, medium or low to a particular risk. When a scoring system is used, middle scores should be avoided, despite the tendency to go for middle scores in attempt to avoid 'personal' risk and difficult discussions.

The manual should highlight that the results of risk assessments done by other parties within the organization (for example risk management) should be considered by internal audit.

In addition, internal audit should solicit input from senior management when making its risk assessment. This input may be obtained via interviews or through participation in a workshop.

The manual should specify that all risks must be prioritized based on the results of the risk assessment, and this prioritized list of risks must form the basis to develop the annual internal audit plan.

3.1.3. Strategic Audit Plan

The CAE is required to develop the long-term strategic plan for the internal audit function. Long-term may represent a period of 3 to 5 years. Long-term strategic objectives of the internal audit function should be fully described in the manual. These internal audit objectives should be clearly linked to the organization's goals and must be updated annually. It is good practice that the achievement, partial or full, of these objectives should be measurable.

It is imperative to obtain senior management's buy-in, and senior management and the audit committee (if applicable) are responsible for approving the plan.

Given the comprehensive nature of the strategic audit plan, a sample structure of the plan may be added in the annexes to the manual.

3.1.4. Annual Audit Plan

The CAE is responsible for developing a risk-based annual audit plan. This annual audit plan should be based on the strategic audit plan, which was driven by the results of the risk assessment.

The required number of man days must be estimated for all audit objects, and based on the available resources, internal audit should draw a line on that prioritized list to determine what should be audited in the upcoming and year. Include a provision for a realistic number of man-days for ad hoc (unplanned) audits, which may be based on the experience gained from the previous years.

Estimate additional costs (for example, travel costs or hiring external resources) in order to prepare the audit budget for the upcoming year.

The manual should emphasize that the proposed audit plan is to be submitted to senior management and the audit committee (if applicable) for approval and/or ratification.

The annual plan should be revised during the year if circumstances justify, in order to reflect changed priorities, whether due to changed risk factors or urgent requests from senior management (or audit committee if applicable).

A sample structure of the annual internal audit plan may be added in the annexes to the manual.

3.1.5. Annual Audit Budget

The manual should make clear that it is mandatory to establish an annual budget. The budget should include: staff headcount (including temporary and outsourced resources), audit mission related travel costs, training costs and IT costs, to name a few.

The proposed budget should be submitted to senior management and the audit committee (if applicable) for approval and/or ratification.

3.1.6. Coordination with Other Assurance Providers

In preparing its annual audit plan, internal audit should pursue coordination with other internal and external assurance providers. The objective of this coordination is to create synergy, while avoiding duplication and uncovered critical gaps.

External assurance providers include external auditors, the NAO, and the Audit Authority. Internal assurance providers include units responsible for the second line of defense that is, financial inspection, quality, and risk management.

3.2. Execution

The manual should include a flowchart of the execution process.

Further, the manual should emphasize the importance of proposing a strict schedule for the various key components of the audit process such as planning, fieldwork and reporting. The final report should be issued soon after the end of the fieldwork, and the timeframe in which this should be done must be specified in the manual.

3.2.1. Audit Engagement Planning

Engagement planning involves gaining an understanding of the objectives, processes, risks and controls of the audited entity and the activities to be audited.

3.2.1.1. Staffing the audit

One of the first items to plan is the composition of the audit team, based on required skills and experience. The responsibility for the selection of the team should be described. A grid with selection criteria for team members may be included in the manual.

Prior to the start of the audit, a service order (letter of appointment) must be issued to internal auditors appointing them to the audit, and notification sent to the entity where the audit will take place. An example of a notification form may be included in the manual.

3.2.1.2. Opening Meeting

At the start of the audit a kick-off (opening) meeting must be organized with the entity of the auditee. At a minimum, the meeting will cover the objectives of the audit, the timing of the audit and the information that will be requested from the auditee. A standardized presentation may be used for this purpose.

In this meeting, areas of concern should be solicited from the auditee.

Internal auditors should make notes on the issues discussed and these notes will become part of the audit file.

3.2.1.3. Tools

There are a variety of tools that the internal auditor will use throughout the audit assignment and the manual should describe and explain the more common ones. Consideration should be given to:

- *Flow Charting* - internal auditors may use flowcharts to obtain a better understanding of the flow of a transaction through a process. A simple system, procedure or process can be illustrated with a flowchart and eventually added in the annex. The manual should explain the proper symbols to use and how to use the flowcharting software.
- *Risk Assessment Tool* - whether the internal audit function is utilizing a more sophisticated risk assessment software tool or a simplified Excel sheet, the internal manual should describe and explain how they are used.

- *Data Query Tools* - data query or data mining tools have become a normal part of the auditor's toolkit. The manual should explain how to use them.
- *Audit Sampling* - though sampling has been substantially automated over the years, it is essential for auditors to know when to use which sampling techniques. Sampling techniques should be explained in the manual.
- *Audit File Administration* - audit file administration must be in line with national regulations and rules on documentation. Audit software tools can help the internal audit function to manage its file administration, from the planning phase through execution of the fieldwork to the final audit report, and a follow-up phase may be integrated. The manual should clearly outline processes and procedures for audit file administration, that is, hard copy file administration and IT audit file administration.

3.2.1.4. Preliminary Survey

Every audit engagement must be preceded by a preliminary survey and the ultimate objective of this survey is to obtain a good understanding of the audited entity and its operations.

The purpose of the preliminary survey is to obtain more detailed information about the process (or parts of the process) that will be audited, and more specifically about the risks inherent to the process and about key controls. The manual should provide a list of common information that needs to be gathered during the preliminary survey. Specific information will depend on the audit objectives.

During the preliminary survey internal auditors are expected to acquire a full understanding of the criteria (or standards) used by the auditee to measure the performance of the process under audit. If the internal auditors cannot find evidence of adequate measurement criteria, the manual shall describe the procedures to establish criteria (based on good practices or the auditors' experience) and seek agreement with the auditee on these criteria.

At the end of the preliminary survey, the audit team should be able review the original risk assessment made when preparing the annual audit plan. If the results are substantially different, the internal auditors must revise their original assessment so as to develop clear and focused audit objectives.

3.2.2. Audit Objectives and Audit Scope

The audit objectives and audit scopes are crucial components of the audit plan and care must be taken when establishing them.

In developing the audit scope, internal auditors should make every effort to set up clear and achievable objectives. These should be based on the results of the

preliminary survey as well as the objectives established in the annual audit plan. The manual should state that audit objectives should be directly linked to the risk that triggered the audit's inclusion in the annual audit plan. For example, if the risk was related to the effectiveness of a certain process, the audit objectives should not focus on compliance issues. In addition, the manual should provide a few examples on how to develop good audit objectives. It is essential to link the audit objectives to (generally accepted) organization or department control objectives, so that senior management can acknowledge the risks they have identified as important to them.

Once the audit objectives have been clearly defined, internal auditors must focus on the scope of the audit, that is, what areas will be reviewed in the audit. The scope may relate to time period, branches, or IT process to name a few. It is the responsibility of internal audit to decide on a scope limitation, although the auditee may suggest that the auditors not review a particular area, for example an IT system that will be replaced in a few months. The manual should emphasize that, in all cases, the scope should be sufficient enough to achieve the audit objectives.

3.2.3. Audit Program

Once the audit objectives and scope have been defined, internal audit are required to develop an audit program.

The audit program is unique for a specific audit engagement, therefore a standardized template or program should not be used, except in the case of recurring audits (for example, regional or branch audits).

The manual should indicate the various steps to be undertaken to match the respective audit objectives (for example used methodologies and techniques, time schedule, segregation of duties, audited period and type of audit).

3.2.4. Audit Field Work

The detailed procedures for collecting, analyzing, interpreting, and documenting information to achieve the audit objectives take place during audit fieldwork.

3.2.4.1. Working Papers

Internal auditors need to document audit work to support their conclusions, and to facilitate management review and supervision. Also, documentation facilitates quality assurance, peer reviews, and may provide useful input to other audit missions in the same area.

The manual should specify the content of the working papers, labels and cross references, as well as the process of supervisory approval.

Audit documents are to be kept in files, which are to be organized in a standard manner to facilitate their use by managers when reviewing audit working papers, and any other authorized person requiring access to them.

The indexing of the documents should be specified in the audit manual.

Two sets of files should be maintained - the permanent file and the current file.

- *Permanent file* – should contain all information that is relevant to generally understand the unit (function) and does not change from year to year.
- *Current file* – should contain only the information required to document the findings and to support the conclusions of a specific audit engagement.

3.2.4.2. Executing the Audit Program

In conducting the fieldwork, internal auditors carry out the steps that have been agreed to and approved in the audit program.

3.2.4.2.1. Audit Approaches

The approach to system based audits should be described.

3.2.4.2.2. Internal Audit Techniques

The manual should include a description of the various internal audit techniques, including their strengths and weaknesses. These techniques may include, but are not limited to:

- Verification
- Recalculation
- Observation
- Interview
- Questionnaires
- Checklists
- Sampling
- Testing of controls
- Substantial testing
- Analytical procedures
- Walk-through testing

A more detailed description and approach should be given in annexes.

3.2.4.2.3. Internal Control Assessment

The manual may contain guidance on how to assess the adequacy and effectiveness of controls. This should include manual controls, general IT controls, and specific application controls.

Detailed guidance on how to achieve this goal may be described in the annexes.

3.2.4.2.4. Audit Evidence

The manual may contain guidance on how to obtain the best available audit

evidence. The various kinds of evidence may be explained.

All collected audit evidence must be part of the audit file.

3.2.4.2.5. Supervising the Audit

Supervision applies to internal audit engagements and various administrative and training aspects.

The CAE must determine by whom and at what level the supervision of the audit engagement should be performed and this should be specified in the manual. The most experienced internal auditor of the team (organization) is usually responsible for supervision activities.

Supervision related to audit engagements must be traced in the audit working papers.

Special guidance must be given on how to deal with supervision in small or single person internal audit activities.

3.2.4.2.6. Fact-Finding Sheet

During fieldwork audit findings are often shared with the audited entity for validation and/or discussion. This enables the auditee to become informed about the internal auditors' findings, and gives them the opportunity to take corrective actions before the audit ends.

A fact-finding sheet may be used to share audit findings as soon as possible with the auditee during the audit (before the exit meeting and the audit report). The fact-finding sheet should include:

- *Criteria* - what did the auditor expect to find according to the department's standards or criteria?
- *Condition* - what did the auditor observe during his/her work?
- *Cause* - what is the probable reason for a deviation between criteria and condition? This is the result of the auditor's research.
- *Effect* - what will be the consequence if the situation continues to exist? This is the material impact as seen by the auditor?

3.2.4.2.7. Closing Meeting

The final stage of the auditor's fieldwork is the closing meeting with the audited entity, in which a summary of the audit findings and recommendations for solving the issues are shared. The closing meeting is the final opportunity for the auditors to validate their accuracy in identifying conditions or interpreting criteria.

The manual should mention that:

- Findings that are discussed at the closing meeting should never be a surprise for the auditee. These should have been discussed during the course of the audit via fact-finding sheets or intermediary meetings).

- The closing meeting should be an excellent preparation to the final audit report for the auditee.
- Final agreement on how to solve issues should be reached at the closing meeting.
- A standardized presentation may be used for the purpose of the closing meeting.
- Minutes of the closing meeting should be distributed.

3.2.5. Reporting on Internal Audit Engagements

It is important to have a clear procedure about the various steps in the reporting process.

3.2.5.1. Intermediary Report

Urgent issues identified during an audit may require an intermediary report because of high level risks. Audits of lengthy duration or with a number of subtasks may also justify intermediary reports. Auditors may use their discretion in determining the need for an intermediary report.

The manual should have clear guidelines on the intermediary report, including:

- The format of the report - the intermediary report may be in writing, but urgency may justify an initial oral report in person or by phone before confirmation in a written report.
- Documentation - the internal auditor must document oral reports.
- Obligation - an intermediary report does not remove the obligation to issue a final report at the end of the audit.
- Procedure - the intermediary report, because of its urgency, may not necessarily follow the normal process where agreement with the auditee is sought, and may be addressed immediately to senior management.

A standard form for intermediary reports may be developed and included in the annex to the manual.

3.2.5.2. Draft Report

The auditor will issue a draft report to solicit comments and suggestions from the auditees.

Proper wording plays a crucial role in the attitude of the audited entity about whether to accept or reject parts of the report because the auditee must be able to continue to look “good” in the organization. The manual may include some examples of appropriate and inappropriate wordings in the annexes.

A good and effective closing meeting can make the draft report more acceptable. It is essential to identify and include the most relevant people at the closing meeting. The manual should offer clear guidelines on the process of preparing and issuing

the draft report. Areas to cover include:

- Format - the draft report should have an agreed upon format.
- Timing of the report - often the 'negotiation' procedure in between draft and final report becomes a bottleneck in the total audit time. Therefore, if not foreseen in the law, it may be good to negotiate with senior management a maximum time limit to respond to a draft report. This time limit should be included in the manual and in the reporting process.
- Handling disagreements - when the auditee disagrees with parts of the report, there should be clearly established procedures on how to deal with disagreements:
 - If the auditee is right, the auditor has to update the report.
 - Since neither senior management nor the audit committee likes to operate as referees, if the auditee disagrees with some findings, the auditor should try to persuade the auditee. If the disagreement remains, the auditor should add the auditee's comments to the audit report and explain in the audit report why disagreement remains.
 - If the auditee's comments are irrelevant, the auditor needs to provide a response or clarification, even if this may upset the auditee when he receives the final report.

3.2.5.3. Final Report

It should be clear to readers of the report that the findings, as identified by internal audit, are real issues they should care about. It is therefore of utmost importance to clarify problems from the readers' perspective so that the report portrays issues as real management concerns rather than as audit problems.

The manual should state that unless requested by senior management or the audit committee to focus only on findings, it is proper practice, to provide senior management and the audit committee with a balanced view. For example, the report should point out whether the organization is in control of the process.

In addition, if the audited entity has started to fix problems identified in fact finding sheets or intermediary reports, this should also be acknowledged in the report.

A standardized format may be used for the final report and an example of a possible report structure may be provided in the annexes to the manual.

Many audit functions use a scoring system to emphasize the importance of their findings. The objective is to give a clear opinion to senior management and the audit committee on the state of control of the process that was audited, and this is a distinct advantage of scoring. Nevertheless, there are risks associated

with scoring such as: (1) the auditees focusing on the score rather than the content when discussing the draft report; or (2) auditors have a tendency of assigning middle or “neutral” scores in order to minimize “personal” risk. If senior management requires a scoring system, it is better to have a risk scoring system with 4 levels: low, moderate, high and significant. The scores should convey to management a decisive answer to the question: “Are we in control?” The manual should describe the following features of the audit report:

- *Addressees* - the internal audit manual must describe to whom the final audit report should be addressed. Existing protocols should be respected throughout the organization, and it is very important that addressees have authority and responsibility to solve the problems. The CAE makes the final decision on the addressees of the final report.
- *Executive Summary* - it is recommended to include an executive summary in the final audit report, since the report will be read by a variety of people with different needs and objectives. Some are interested in the big picture (senior management and the audit committee), while others are interested in more details (operational management – the auditee). The manual should explain what should be included in the executive summary, and a detailed example may be provided in the annexes.
- *Recommendations* – final audit reports must include recommendations. In addition to highlighting problem areas, auditors should suggest ways in which the problems can be solved or improved. Recommendations should not be academic in nature but pragmatic and implementable. Auditors’ recommendations are advice to management and not orders.
- *Action List* - it is recommended to agree with the auditees on actions to be taken. It is common practice to attach an action sheet with target dates agreed upon by the auditees to the audit report. An example of an action list may be provided in the annexes to the manual.

3.2.5.4. Reporting to Authorities in Case of Irregularities (Fraud)

In some countries internal audit is required to report identified fraud cases to the competent authorities. The manual should describe the procedures for making this report, including how to seek legal advice, if necessary.

3.2.5.5. Follow-up on Audit Report Recommendations

The manual should outline the requirement for internal audit to establish a system to follow-up the status of implementation of audit recommendations. The purpose of this system is to track whether operational management has taken appropriate initiatives to solve issues identified during the audit.

Internal audit may need to undertake a follow-up audit, depending on the critical nature of the issues raised, in order to ensure that the solutions implemented by management address the issues.

A detailed example of a follow-up mechanism may be provided in the annexes.

3.2.5.6. Activity Reports

On a periodical basis, at least once a year, internal audit is required to present an activity report to senior management, the CHU and the audit committee (if applicable). The purpose of the activity report is to compare actual audit work performed versus planned work (audit planning). Many activity reports also summarize the major obstacles and findings uncovered during the past period.

The reports requested by the CHU should be prepared in accordance with the instructions of the CHU.

3.2.5.7. Annual Audit Opinion (Statement of Assurance)

Many internal audit functions are now required to issue an opinion on the annual Management Assurance Statement. This request is a challenge for many internal audit functions, as audits of the past year only cover a portion of the total audit universe as stated in the annual audit plan. Internal audit needs to generate innovative approaches on how to respond to this request from senior management and the audit committee while facing resource restrictions.

3.2.6. Record Retention

The internal audit manual shall specify for how long and under which format internal audit documentation shall be retained. Legal advice should be sought if not foreseen by the law.

4. QUALITY CONTROL

4.1. Quality Program

Many stakeholders, direct and indirect, rely on the work of internal audit. According to internationally accepted internal auditing standards, and good professional practices, internal audit shall have a quality program in place. This program should consist of:

- Continuous monitoring
- Internal quality assessments
- External quality assessments

The internal audit manual should briefly describe the quality measures that are in place. The CAE should report on a regular basis to senior management, the CHU and the audit committee (if applicable) on the results of the quality program. These reports should be provided annually, at a minimum, as part of the annual activity reporting.

4.2. Audit Entity Survey

It is good practice to conduct a small audit entity survey at the end of every audit. This is one method, although not always the most objective, of obtaining feedback from the auditees on the effectiveness and usefulness of the audit. An audit entity survey is usually a standard form, which can be added in the annexes.

In addition, the Head of the internal audit unit can also meet in person with the auditee to discuss any quality issue.

4.3. Ongoing Supervision

Supervision is an integral part of the quality program within the internal audit function. It relates to the ongoing monitoring and coaching of auditors. Many principles can be taught in advance, but for most internal auditors real training happens on-the-job.

Specific guidelines for supervisors, who may also need some specific training, may be included in the internal audit manual.

Supervision applies to internal audit engagements, as well as various administrative and educational aspects. Supervision related to audit engagements should be traced in the audit working papers.

Ongoing supervision must be considered as internal audit's own set of controls that provide a window into the work performed and the quality of operations. It should be built into the job descriptions and operating routines of the internal audit department.

Special attention should be given in the manual to different ways of dealing with the concept of supervision in the case of small or even single person internal audit functions.

4.4. Key Performance Indicators

More mature internal audit functions develop their own balanced scorecards or key performance indicators as a good way to set objectives and measure their own performance. These indicators should be meaningful for the stakeholders of internal audit services.

Specific key performance indicators may be developed with regard to:

- Audit committee and executive management - meeting expectations
- Audit clients - auditees
- Audit processes - planning and execution of engagements
- Innovation and capabilities - IT, training, certification
- Other internal stakeholders - risk management, compliance

4.5. Internal Quality Assessments

Internal quality assessments should be conducted at least every two years under the direction of the Head of the internal audit unit. This process allows internal staff to examine the operations of the function, specifically:

- Has the charter been updated to reflect current conditions?
- Does a comprehensive risk assessment serve as the basis for planning and execution?
- Are stakeholders' needs met in a timely fashion?

The internal quality assessment process must be described in the manual.

As part of the internal quality assessment, a stakeholder survey may be included in order to gain information about perceptions related to the quality of internal audit services, and to ensure that expectations are being met.

The results of the internal quality assessment should be reported and a process put in place to follow-up on any recommendations.

4.6. External Quality Assessments

The IIA strongly encourages CAEs to subject their internal audit departments to independent scrutiny.

The IIA's *Standard 1312*, issued in 2002, states that, "...every internal audit department must have an external quality assessment at least once every five years by a qualified, independent reviewer or review team from outside the organization."

In certain circumstances, such as rapid turnover of staff or a change in internal audit leadership, a more frequent assessment schedule may be warranted.

As part of the external quality assessment a stakeholder survey may also be considered to gain information about perceptions related to the quality of internal audit services and to ensure expectations are being met.

The external quality assessment may take the form of:

- A full blown external review, which can be costly,
- An internal assessment with external validation,
- A peer review by two heads of internal audit of different organizations, supported by someone from the CHU,
- A CHU review - the CHU monitors some aspects of the internal audit performance on an annual basis. This review does not replace an independent external assessment, or
- An SAI review - the SAI reviews some aspects of the work of internal audit on an annual basis. This review does not replace an independent external assessment.

The results of the external quality should be reported and a process established to follow-up on any recommendations.

5. PROMOTION OF INTERNAL AUDIT AND KNOWLEDGE MANAGEMENT

5.1. Promotion of Internal Audit

Promoting the internal audit function is an ongoing mandate. The development of a slideshow or brochure (flyer) would be helpful in achieving this purpose.

In addition, where possible, the use of Internet and intranet tools is recommended.

5.2. Knowledge Management

5.2.1. File Organization

Internal auditors gather a variety of valuable information through their network, at seminars or conferences, or from the Internet. The internal audit function should look for a suitable and structured way to store and share this information.

5.2.2. Benchmarking

It is good practice for the internal audit function to gather relevant benchmarking data. The IIA's Global Audit Information Network (GAIN) is one such example.

5.2.3. Glossary of Terms

Internal auditors use a variety of technical terms and jargons. It is worthwhile including a small glossary of terms in the manual, in order to facilitate consistent use and application of these words on a regular basis.

5.2.4. Public Expenditure Management Peer-Assisted Learning (PEM-PAL)

Participation in networks, such as PEM-PAL, has obvious advantages for all internal audit functions. Reference to the network and links to their shared documents can be highlighted.

5.2.5. The Institute of Internal Auditors (IIA)

The IIA is the global professional organization for internal auditors, and most countries have a local affiliate to the IIA. Participation in the local affiliate may be

encouraged by the organization because of the available networking opportunities. In addition, the IIA's website offers a wealth of valuable information.

5.2.6. Membership

Membership in various professional organizations (provide a list of organizations) may be encouraged or required. The rules are best to be included in the manual.

Appendix 1

Structure of the Strategic Audit Plan

- Introduction
 - baselines
 - legal framework
- Mission and objectives of internal audit
- Base for drafting the Strategic Audit Plan
- List of auditable processes with a time/frequency schedule
- Organization and development of the internal audit function
 - existing structure and work organization of the IA
 - internal audit development plan
 - allocation of internal audit resources
 - training and continuing development
 - other planned activities for the internal audit function
- Reporting
 - annual internal audit report
 - periodical internal audit reporting

Under the Reporting section all of the mandatory internal audit reports should be listed.

Appendix 2

Structure of the Annual Audit Plan

- Introduction
 - baselines
 - legal framework
- Role and purpose of the internal audit function
- Planning and approval of the internal audit annual plan
- List of selected audits
 - list of processes/departments to be audited
 - audit objectives, scope and audit approach for each planned audit
 - resource allocation
- Budget related to the internal audit plan
- Internal audit related activities
 - training and continuing professional development
 - participation in audit committee meetings
 - lecturing of internal audit related topics
- Internal audit work organization (optional)
 - internal audit organizational structure
 - internal audit work organization
- Reporting
 - annual internal audit report
 - periodical internal audit reporting

Appendix 3

Structure of the Final Audit Report

The structure of the report may consist of the following parts (items to include in each section should be explained):

- Executive summary
- Introduction
- Audit approach (audit objectives, type of audit)
- Audit findings, risks, impact and recommendations (for each type of risk, should be separate if required)
- Conclusion (a single conclusion/opinion on the overall audit engagement)
- Management response

Annexes (action plan for implementing the recommendations, if applicable)

Other potential appendices:

- Flowchart of the audit execution process
- Example of an Audit Service Order
- Detailed description of audit techniques
- Guidance on assessment of controls
- Example of fact finding sheet
- Example of proper wordings in reports
- Example of an executive summary
- Example of a follow-up system for recommendations
- Example of audit entity survey
- Example of a system/process flowchart
- Example of a risk assessment methodology

