**Decree №**

**Of the Government of Georgia**

**14 September 2011 Tbilisi**

**On Introduction of Amendment in the Decree #1015 dated July 30, 2010 of the Government of Georgia on “approval of Internal Audit standards”**

 1. Pursuant to article 63 of the General Administrative Code of Georgia, Internal Audit Standards approved by the decree №1015 of the Government of Georgia of July 30, 2010 on “approval of Internal Audit standards” shall be changed in accordance with the wording annexed to this document.

 2. The decree enters into force on the date of its signature.

Prime Minister Nika Gilauri

**Internal Auditing Standards**

**Chapter I**

**Standards for Qualitative Characteristics**

**Article 1. The Internal Audit Charter**

1. The internal audit charter (the “Charter”) defines internal audit unit’s purpose, authority and responsibility. The Charter shall comply with the law of Georgia on “State internal audit and inspection”, the Code of Ethics for Internal Auditors and Internal Audit Standards. The head of internal audit unit shall review the Charter on a regular basis and make relevant proposals to the head of institution.

***Interpretation***

*The internal audit charter is a legal act, which defines internal audit unit’s purpose, authority and responsibility. The internal audit charter establishes the internal audit unit's position within the institution, including head of internal audit unit functional reporting relationship of the head of internal audit unit with the head of institution; authorizes access to records, personnel, tangible property and intangible assets relevant to the performance of audit engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the head of institution.*

2.The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the *Internal Audit Standards* must be recognized in the internal audit charter..

**Article 2. Independence and Objectivity**

The internal audit unit must be independent, and internal auditors must be objective in performing their work.

***Interpretation***

*Independence is the freedom from conditions that threaten the ability of the internal audit unit to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit unit, the head of internal audit unit has direct and unrestricted access to the head of institution..*

*Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.*

*Threats to independence and objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.*

**Article 3. Organizational Independence**

1. The head of internal audit unit must report to a level within the organization that allows the internal audit unit to fulfill its responsibilities. The head of internal audit unit must confirm to the Council, at least annually, the organizational independence of the internal audit activity.

**2.**The head of institution provides the functional and organizational independence of the internal audit unit.

***Interpretation***

*Organizational independence is effectively achieved when the head of internal audit unit reports functionally to the head of institution. Examples of functional reporting involve the head of institution:*

*a) Approving the internal audit charter;*

*b) Approving the strategic and annual plans of internal auditing;*

*c) Receiving communications from the head of internal audit unit on the internal audit unit’s performance;*

*d) Approving decisions regarding the appointment of internal auditor by the presentation of the head of internal audit unit.*

2.The internal audit unit must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

3. The head of internal audit unit must communicate and interact directly with the head of institution.

**Article 4. Individual objectivity**

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

***Interpretation***

*Conflict of interest is a situation in which an internal auditor has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit unit, and the profession. A conflict of interest could impair an auditor’s ability to perform his or her duties and responsibilities objectively.*

**Article 5.**  [**Impairment to Independence or Objectivity**](http://www.theiia.org/guidance/standards-and-guidance/ippf/standards/standards-items/?C=3093&i=8245)

1. If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to the head of institution. The nature of the disclosure will depend upon the impairment.

***Interpretation***

*Impairment to organizational independence and objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding****.***

2. Internal auditors must refrain from assessing specific operations for which they were previously responsible.

3.Engagements for functions over which the head of internal audit unit has responsibility must be overseen by a party outside the internal audit unit.

4.Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

5.If internal auditors have potential impairments to independence or objectivity relating to internal audit engagement, disclosure must be made to the Head of institutional the moment of detection.

**Article 6. Proficiency**

1. Internal audit engagements must be performed with proficiency and due professional care.

2. Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit unit collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

***Interpretation***

*Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required for internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications.*

3.The head of internal audit unit must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

4.Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the institution, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

5.Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

6.The head of internal audit unit must decline the internal audit engagement or obtain competent advice and assistance from the third person if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

**Article 7. Due Professional Care**

1. Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

2. Internal auditors must exercise due professional care by considering the:

a) Extent of work needed to achieve the engagement's objectives;

b) Relative complexity, materiality, or significance of matters;

c) Adequacy and effectiveness of governance, risk management, and control processes;

d) Probability of significant errors, fraud, or noncompliance;

e) Cost of assurance in relation to potential benefits.

3. In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

 4.Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources of organization. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

5.Internal auditors must exercise due professional care during internal audit engagement by considering the:

a) Needs and expectations of the head of institution, including the nature, timing, and communication of auditing results;

b) Relative complexity and extent of work needed to achieve the internal audit objectives;

c) Cost of the auditing engagement in relation to potential benefits.

**Article 8. Continuing Professional Development**

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

**Article 9. Quality Assurance and Improvement Program**

The head of internal audit unit must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit unit’s activity.

***Interpretation***

*A quality assurance and improvement program is designed to enable an evaluation of the internal audit unit’s activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit unit’s activity and identifies opportunities for improvement*

**Article 10. Requirements of the Quality Assurance and Improvement Program**

1. The quality assurance and improvement program must include both internal and external assessments.

2.Internal assessments must include:

a) Ongoing monitoring of the performance of the internal audit unit;

b) Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

***Interpretation***

*Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit unit’s activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit unit’s activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the internal audit Standards.*

*Periodic reviews are assessments conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the internal audit Standards*

*Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.*

3.External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The head of internal audit unit must discuss with the head of institution:

a) The need for more frequent external assessments;

b) The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.

***Interpretation***

 *A qualified reviewer or review team demonstrates competence in two areas: practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of a review team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The head of internal audit unit uses professional judgment when assessing whether a reviewer or review team demonstrates sufficient competence to be qualified.*

*An independent reviewer or review team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit unit belongs.*

**Article 11. Reporting on the Quality Assurance and Improvement Program**

The head of internal audit unit must communicate the results of the quality assurance and improvement program to the head of institution.

***Interpretation***

*The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with the head of institution and considers the responsibilities of the internal audit unit and head of internal audit unit as contained in the internal audit charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the internal audit Standards*, *the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the reviewer’s or review team’s assessment with respect to the degree of conformance****.***

**Article 12. Use of "Conforms with the internal audit Standards "**

1. The head of internal audit unit may state that the internal audit unit’s activity conforms with the internal audit *Standards* only if the results of the quality assurance and improvement program support this statement.

***Interpretation***

*The internal audit unit’ activity conforms with the internal audit Standards when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics, and internal audit Standards. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.*

2. When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the internal audit *Standards* impacts the overall scope or operation of the internal audit unit’s activity, the head of internal audit unit must disclose the nonconformance and the impact to the head of institution.

**Chapter II**

**Performance Standards**

**Article 13. Managing the Internal Audit unit**

The head of internal audit unit must effectively manage the internal audit unit to ensure it adds value to the institution.

***Interpretation***

*The internal audit unit is effectively managed when:*

 *a) The results of the internal audit unit’s work achieve the purpose and responsibility included in the internal audit charter;*

*b) The internal audit unit conforms with the Definition of Internal Auditing and the Internal Audit Standards;*

*c) The internal auditors demonstrate conformance with the Code of Ethics and the Internal Audit Standards.*

*The internal audit unit’s activity adds value to the institution, when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.*

**Article 14. Policies and Procedures**

The head of internal audit unit must establish policies and procedures to guide the internal audit unit’s activity.

***Interpretation***

*The form and content of policies and procedures are dependent upon the size and structure of the internal audit unit and the complexity of its work.*

 **Article 15. Internal Audit Planning**

 1. Types of internal audit plans:

 a) internal audit strategic plan;

 b) internal audit annual plan;

 c) individual audit plan.

2. The head of internal audit unit must establish risk-based annual and strategic plans to determine the priorities of the internal audit unit, consistent with the institution's goals.

***Interpretation***

*The head of internal audit unit is responsible for developing a risk-based strategic and annual plan. The head of internal audit unit takes into account the institution’s risk management conceptual basis, including using risk levels set by management for the different activities or parts of the institution. If a conceptual basis does not exist, the head of internal audit unit uses his/her own judgment of risks after consultation with the head of institution.*

 3. Planning of internal audit shall be carried out on the basis of risk assessment and its results shall be reflected in Internal audit strategic plan, on the basis of which internal audit annual plan shall be developed.

 4. Internal audit strategic plan shall be developed by the head of the internal audit unit And endorsed by the Head of institution. Internal audit strategic plan shall follow long-term goals of the institution, include 3-year period and determine the directions of strategic development in the sphere of internal audit.

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 5. Internal audit annual plan shall be developed by the head on internal audit and endorsed by the Head of institution. Annual plan of internal audit shall be based on internal audit strategic plan and include specific internal audit engagements.

 6. Monitoring of follow-ups shall be scheduled in internal audit annual plan, for the purpose of assessment of adequacy, effectiveness and timeliness of follow-ups.

 7. Based on proposal of the head of the internal audit unit, any changes in strategic and annual plan shall be introduced on the basis of risk assessment.

 8. Annual and strategic plans of internal audit shall be approved prior to beginning of the planned period.

 9. Annual and strategic plans or amendments to be made in them shall be approved by the Head of the institution and sent to the Harmonization Center.

 **Article 16. Resource Management**

The head of internal audit unit must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

***Interpretation***

*Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan*

**Article 17. Coordination**

The head of internal audit unit should share information and coordinate activities with other internal and external providers of auditing and assessment services to ensure proper coverage and minimize duplication of efforts.

**Article 18. Reporting to the head of institution**

The head of internal audit unit must report, in agreed frequency, to the head of institution on the internal audit unit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and internal control issues, including fraud risks, governance issues, and other matters requested by the head of institution.

***Interpretation***

*The frequency and content of reporting are determined in discussion with head of institution and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by the head of institution.*

**Article 19. Nature of Work**

The internal audit unit must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

**Article 20. Governance**

1. The head of internal audit unit must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

a) Promoting appropriate ethics and values within the institution;

b) Ensuring effective institutional performance management and accountability;

c) Communicating risk and control information to appropriate areas of the institution;

d) Coordinating the activities of and communicating information among the head of institution, external and internal auditors, and Harmonization Center.

2. The internal audit unit must evaluate the design, implementation, and effectiveness of the institution's ethics-related objectives, programs, and activities.

3. The internal audit unit must assess whether the information technology governance of the institution supports the institution's strategies and objectives.

**Article 21. Risk Management**

1. The internal audit unit must evaluate the effectiveness and contribute to the improvement of risk management processes.

***Interpretation***

*Determining whether risk management processes are effective is a judgment resulting from the internal auditor’s assessment that:*

* *a) institution’s objectives support and align with the institution’s mission;*

*b) Significant risks are identified and assessed;*

*c) Appropriate risk responses are selected that align risks with the institution’s risk appetite;*

*d) Relevant risk information is captured and communicated in a timely manner across the institution, enabling staff and the management to carry out their responsibilities.*

*Risk management processes are monitored through ongoing management activities, separate evaluations, or both.*

2.The internal audit unit must evaluate risk exposures relating to the institution's governance, operations, and information systems regarding the:

a) Reliability and integrity of financial and operational information;

b) Effectiveness and efficiency of operations and programs;

c) Safeguarding of assets;

d) Compliance with laws, regulations, policies, guidelines, procedures, and contracts.

3.The internal audit unit must evaluate the potential for the occurrence of fraud and how the institution manages fraud risk.

4.Internal auditors must incorporate knowledge of risks gained from internal audit engagements into their evaluation of the institution's risk management processes.

5. When assisting head of institution in establishing or improving risk management processes, internal auditors must refrain from interfering in the risk management process, which is actually a competence of the head of institution.

**Article 22. Control**

1. The internal audit unit must assist the institution in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2. The internal audit unit must evaluate the adequacy and effectiveness of controls in responding to risks within the institution's governance, operations, and information systems regarding the:

a) Reliability and integrity of financial and operational information;

b) Effectiveness and efficiency of operations and programs;

c) Safeguarding of assets;

d) Compliance with laws, regulations, policies, procedures, and contracts.

3.Internal auditors must incorporate knowledge of controls gained from internal audit engagements into evaluation of the institution's control processes.

**Article 23. Internal Audit engagement Planning and Objectives**

1. In planning the engagement, head of internal audit unit must consider:

* a) The objectives of the auditee and the means by to control its performance;

b) The significant risks to the auditee, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;

c) The adequacy and effectiveness of risk management and control processes for the auditee compared to a relevant control framework or model;

d) The opportunities for making significant improvements to the risk management and control processes for the auditee.

2. Objectives should be identified for each internal audit engagement.

3.Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

4. Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

5.Internal Auditengagement objectives must be consistent with the organization's values, strategies, and objectives.

**Article 24. Internal Audit Engagement Scope**

1. The established scope must be sufficient to satisfy the objectives of the engagement.

2. The scope of the internal audit engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties;

3.In performing internal audit engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors doubt about the scope during the engagement, this fact must be discussed with the head of institution to determine whether to continue with the engagement.

4. During internal audit engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

**Article 25. Resource Allocation**

Head of internal audit unit must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

**Article 26. Internal Auditing Individual Plan**

1. The head of internal audit unit must develop and document individual work plans that achieve the engagement objectives.

2.Individual work plans must include the procedures for identifying, gathering, analyzing, evaluating, and documenting information during the engagement. The work plan must be approved prior to its implementation, and any adjustments approved promptly.

3.Work plans for internal audit engagements may vary in form and content depending upon the nature of the engagement.

**Article 27. Performing Internal Auditing**

Internal auditors must identify, gather, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

**Article 28. Identifying and Obtaining Information**

Internal auditors must identify and obtain sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

***Interpretation***

*Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the institution meet its goals.*

**Article 29. Analysis and Evaluation**

Internal auditors must base conclusions and auditing results on appropriate analyses and evaluations.

**Article 30. Documenting Information**

1.Internal auditors must document relevant information to support the conclusions and engagement results.

2.The head of internal audit unit must control access to auditing records. The head of internal audit unit must obtain the approval of senior management prior to releasing such records to external parties.

3.The head of internal audit unit must develop retention requirements for auditing records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the institution's guidelines and any pertinent regulatory or other requirements.

4.The head of internal audit unit must develop policies governing the custody and retention of auditing records, as well as their release to internal and external parties. These policies must be consistent with the institution's guidelines and any pertinent regulatory or other requirements.

**Article 31. Internal Auditing Supervision**

Internal audit engagement must be properly supervised by the head of internal audit unit to ensure objectives are achieved, quality is assured, and staff is developed.

***Interpretation:***

*The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The head of internal audit unit has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity.*

**Article 32. Communicating Results**

1. Internal auditors must communicate the results of internal audit engagements. Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

2.Communication of the progress and results of internal audit engagements will vary in form and content depending upon the nature of the engagement and the needs of the head of institution.

3.Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

***Interpretation:***

*Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language* *and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the auditee and the institution and lead to improvements where needed. Timely communications are opportune and expedient, depending on the significance of the issue, allowing auditee and the head of institution to take appropriate corrective action.*

4.If a final communication contains a significant error or omission, the head of internal audit unit must communicate corrected information to all parties who received the original communication

**Article 33. Disseminating Results**

1. The head of internal audit unit must communicate results to the appropriate parties.

2.The head of internal audit unit is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

3.Prior to releasing results to parties outside the institution the head of internal audit unit must:

a) Assess the potential risk to the institution;

b) Consult with the head of institution;

c) Control dissemination by restricting the use of the results.

4.During internal audit engagements, the problems in governance, risk management, and control issues may be identified. Whenever these issues are significant to the institution, they must be communicated to the head of institution.

**Article 34. Internal Auditing Report**

Internal audit report must contain final results of internal audit engagements. It must take account of the expectations of the head of institution and must be supported by sufficient, reliable, relevant, and useful information.

**Article 35. Monitoring of Internal Auditing Reporting**

1. Head of internal audit unit must establish and maintain a system to monitor the activities to be carried out based on internal audit engagement results and on the action plan of recommendations’ performance drawn up by an auditee.

2.Head of internal audit unit must establish a monitoring system for performance of recommendations to ensure effective implementation of the activities by institution management.

3.The internal audit unit must monitor the disposition of results included in report of internal auditing to the extent agreed upon with the head of institution.

**Explanatory Note**

**On the draft Decree of the Government of Georgia**

**On changes in the decree №1015 of the Government of Georgia of July 30, 2010 on “approval of Internal Audit standards”**

Pursuant to the present draft decree, internal audit standards have been changed in accordance with the above wording. This is due to the fact that they have been improved, processed and brought into compliance with the international standards on professional practice by Internal Audit Council Secretariat.

Current internal audit standards in due time were considered by relevant EU experts. According to the comments made by these experts, several inconsistencies with international standards have been revealed, besides some adjustments in wording were needed to make this document understandable and applicable for internal auditors.

In consideration of the above-mentioned issues, Internal Audit Council Secretariat has processed and harmonized the internal audit standards with international standards and reviewed this document at Internal Audit Council, which endorsed internal audit standards to be approved by the present Draft Decree of the Government of Georgia.