Good Practice Internal Audit Manual Template

Europe and Central Asia
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1. Fundamentals

1.1. Reference to legal and regulatory framework

A difference with the private sector is that internal audit finds its basis in a regulatory framework. Proper reference to this framework, including reference to parliament's acts and European Union legislation (if applicable), shall be included.

Subsequent changes to the regulatory framework shall also be included.

Relationships with the Ministry of Finance, the Central Harmonization Unit (CHU), the Audit Authority and the National Audit Office (NAO or SAI) shall be part of this chapter.

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

1.2. Authority, organization and professional standards

The position of internal audit within the organization shall be clarified. It shall be made clear what the authority of internal audit is and what they are not responsible for.

The reporting lines of internal audit, both administrative and functional, to senior management, the audit committee (if any) and the parliament eventually shall be explained. The role of the CHU shall be clarified as well.

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

Reference shall be made to professional standards. These standards shall include the international standards, promulgated by the global Institute of Internal Auditors, as well as any existing national standards. Reference can also be made to INTOSAI standards (if applicable).

The internal audit charter shall also be attached to this section.

1.3. Mission statement

The mission statement shall contain the reason of existence of internal audit (besides the regulatory framework). What is the role and contribution to the organization shall be explained in clear words (no definition!). How will internal audit assist the organization in achieving its goals? This mission statement shall reflect the vision of senior management.

1.4. Internal audit stakeholders
The various stakeholders of internal audit can be defined: senior management, audit committee, budget spenders, operational management, national audit office, audit authority, parliament, etc. Reference can be made to the status of public servant.

1.5. Role of internal audit in the Financial Management Control (FMC) concept

Reference can be made to the three-lines-of-defense model, whereby the differences can be explained between the first line of defense (internal control measures and management supervision), the second line of defense (supporting functions like financial inspection, risk management, quality control, etc.) and the third line of defense (internal audit). An explanation of risk and control concepts, including ownership, is recommended.

1.6. Relationship between financial inspection and internal audit

A clear definition of inspection should be provided and its relationship with internal audit explained.

1.7. Types of internal audit services

Internal audit has a dual role: to provide assurance services as well as consulting services. The difference shall be explained. In the case of consulting services (participation in taskforces) it shall be made clear that the final responsibility for implementing advices made by internal audit is with management. Internal control also remains the responsibility of management.

The process for consulting services shall also be explained, especially whether a request for consulting services needs to be formalized or whether it can be requested on an informal basis.

The various services offered by internal audit can be explained, emphasizing management’s responsibility to do something, or not to do anything with the results of the internal audit activities. Audits can be driven by various objectives: financial, regularity, compliance, operational, system, value for money, program result, performance, IT, fraud, etc. The differences in objectives and deliverables shall be elaborated as well.

1.8. Internal audit versus fraud and corruption

The role of internal audit with regard to fraud shall be explained. Internal audit is never responsible for any type of fraud program (awareness, prevention, detection, investigation), but can play an important role in any of them. While it is obvious that internal audit’s assurance role will have a serious impact on the prevention and detection of fraud, internal audit may also be asked to play a consulting role in fraud awareness exercises or can be asked for advice in a fraud investigation because of its expertise in the controls area.

The role of internal audit with regard to corruption shall be explained. Internal audit is not responsible for any anti-corruption program, but can play an important role in it. It is a good practice to describe any existing responsibility with regard to anti-corruption (first or second line of defense) and to explain its relationship to internal audit (third line of defense).
1.9. Internal audit and the audit of European Union (EU) funds

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

1.10. Independence

The functional and administrative reporting lines shall be explained in this section, as well as their related independence issues. The functional relationship covers the scope of internal audit, the approval of annual audit plans and budget, actions following audit findings, etc. The administrative relationship relates to all employer-employee issue, e.g. annual leave, training and travel approval, etc.

This section of the audit manual shall describe the process with regard to actions involving the internal auditors. A distinction shall be made between actions involving the chief audit executive (head of internal audit) and other internal auditors. It shall describe the process of 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.

Internal audit doesn’t have any operational responsibility. This implies that internal auditors do not have the authority to tell people in the organization what to do or what not to do. Internal auditors do have a moral authority though. The manual shall indicate how to handle this perception.

In principle, internal auditors should be free of any scope limitation. In case operational management or any auditee imposes a scope limitation on internal audit, the manual shall specify which process to follow.

1.11. Applicable professional standards

The audit manual shall refer to applicable professional standards. These standards shall certainly include the international internal auditing standards as promulgated by the global Institute of Internal Auditors (the IIA), but shall also refer to national standards (if applicable) and other standards like ISSAI of INTOSAI (if applicable).

The international IIA standards should not necessarily be part of the manual. A link to the website of the IIA or an attachment 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 regular changes to national legislation.

1.12. Professional ethics

Internal auditors shall operate in conformity with applicable codes of ethics. These codes are for sure the IIA code of ethics, but also national professional codes of ethics (if applicable), as well as the organization’s code of ethics.

A detailed incorporation of these codes may not be needed. A link or attachment will be sufficient.

1.13. Due professional care
Due professional care is probably one of the trickiest standards to comply with. It is not easy to describe. It relates to proper diligence. A lack of professional care may be considered equal to gross negligence and might ultimately lead to the dismissal of the chief audit executive (or one of his/her subordinates) or may even lead to penalties or imprisonment. However, due professional care does not imply infallibility. And some people tend to believe this especially when a fraud occurred.

Therefore it is important to describe a few items that deserve special attention of the internal auditor: What can go wrong in a specific process? How could a person commit fraud? What are the key controls and how can these controls be bypassed? Examples of lack of due professional care can be given as well.

1.14. Unrestricted access

Internal auditors have unlimited access to information, people and assets. This is clearly stated in the internal audit law and in the audit charter. The manual shall clarify in which circumstances this right is valid, e.g. only in the case of the execution of an audit mission. The manual shall also clarify what to do in case this right is being denied by an auditee.

With regard to unlimited access to information, internal auditors shall respect the confidentiality principle of the code of ethics. Access does not necessarily mean that internal audit has the right in all situations (e.g. military) to download or copy (sensitive or classified) information.

With regard to unlimited access to people, internal auditors have the right to interview employees without formally respecting the hierarchical lines. However, internal auditors shall always demonstrate respect for the organization’s culture and habits.

With regard to assets, internal auditors shall respect the organization’s procedures to access assets. For instance, in the case of liquid assets (cash), the organization may require access only if accompanied by another member of staff.

Internal auditors may use audit software or data extraction tools to access data. The manual shall describe how to use (and not to use) these tools. Access shall not occur on live data but on copies. Auditors shall at all times have “read-only” access.

1.15. Organizational structure

This section shall clarify the way the internal audit function is organized. Specific attention shall be given to these situations where internal audit consists of a small number of people.

Specific attention will be given to the various positions and roles within the internal audit function, but only when they exist and can be applicable: head of internal audit, deputy head of internal audit, manager, senior auditor, junior auditor, assistant as well as specific functions (e.g. methodology, quality, IT audit) and engagement roles (e.g. team leader).

The respective tasks and responsibilities (job descriptions) of the above functions and roles shall be described.

1.16. Managing the internal audit function

This section shall include the responsibilities of the chief audit executive. They consist of, but are not necessary limited to:
• 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).
2. Planning

2.1. Audit universe

The audit universe is the overall scope of the internal audit function. In other words, it is the totality of auditable processes, functions and locations.

A broad clarification of how to approach the audit universe shall be incorporated. This approach may be horizontal (following the flow of a process or transaction, e.g. the procurement cycle), vertical (following a department’s activities or focusing on a remote location, e.g. all activities within the procurement department only) or a combination of both (a thematic approach in all locations and departments, e.g. the approval of annual leave).

A key process is a process that is critical in supporting the organization’s objectives, e.g. the process of collecting taxes within the Ministry of Finance.

Critical control areas shall also be used as a criterion to identify a process or part of a process as a component of the audit universe. In the purchasing cycle e.g. a critical control area is the three-way match between purchase order, receiving document and invoice.

It is important to keep a component of the audit universe manageable from an audit perspective. A component that is too large may blur the focus on top risks. A component that is too small may not lead to significant conclusions.

It is recommended to only describe the approach or process of defining the audit universe. The detailed audit universe is a dynamic universe, impacted by new processes, units, projects and risks. It is therefore recommended to keep the detailed universe as an annex to the manual.

If the material value is critical in approaching the components of the audit universe, it shall be explained how this principle is being applied for the selection of components in the audit universe.

2.2. Risk assessment methodology

The purpose of risk assessment is for internal audit to give proper priority to what are the higher risks for the organization. The risk assessment methodology is one of the cornerstones of the internal audit activities. It is therefore mandatory to reflect on and to describe the process in detail. The methodology will contain the following components:

- Definition of risk categories: define which risks are going to be assessed.
- Definition of risk criteria for impact and probability.
- Definition of risk scoring content: in which situation is a risk going to be scored high, medium or low.

Appropriate risk categories need to be identified. Risk criteria for impact and probability need to be identified ahead of the risk assessment exercise. Probability may be replaced by vulnerability, which is easier to grasp and to rate. When a scoring system is used, middle scores should be avoided, because internal auditors (and people in general) have a tendency to go for middle scores, avoiding 'personal' risk and difficult discussions.

The results of risk assessments made by other parties within the organization (e.g. risk management) shall be considered by internal audit.

Internal audit shall also solicit the input from senior management when making its risk assessment. This input may be obtained via interviews or through participation in a workshop.
Based on the results of the risk assessment, all risks shall be prioritized. This prioritized list of risks shall form the basis to develop the annual internal audit plan.

2.3. Strategic audit plan

The chief audit executive is responsible to develop the long-term strategic plan for the internal audit function. Long-term may represent a period of 3 to 5 years. The long-term strategic objectives of the internal audit function shall be described. These internal audit objectives shall be clearly linked to the organization’s goals. These objectives shall also consider senior management’s priorities. As a good practice, the (partial) achievement of these objectives shall be measurable.

It is imperative to obtain senior management’s buy-in on these strategic objectives. Senior management and the audit committee (if applicable) will approve the plan.

The strategic plan shall be updated annually.

A sample structure of the strategic internal audit plan can be added in the annexes to the manual.

2.4. Annual audit plan

The chief audit executive is responsible to develop a risk-based annual audit plan. The annual audit plan is based on the strategic audit plan which is driven by the results of the risk assessment.

The required audit days (man days) shall be estimated for all audit objects. Based on the available resources internal audit shall draw a line on that prioritized list to determine what shall be audited during the upcoming year and what not.

A realistic number of man days shall be reserved for ad-hoc (unplanned) audits. This number may be based on the experience gained from the previous years.

Additional costs (travel costs, hiring external resources) shall also be estimated in order to prepare the audit budget for the upcoming year.

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

If circumstances justify, the annual plan shall be revised during the year in order to reflect changed priorities because of changed risk factors or urgent requests from senior management (and audit committee if applicable).

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

2.5. Annual audit budget

Internal audit shall establish an annual budget. The budget shall include staff headcount (including temporary and outsourced resources), audit mission related travel costs, training costs, IT costs, etc. This budget will reflect the implementation and execution of the annual audit plan.

The proposed budget will be submitted to senior management and the audit committee (if applicable) for approval and/or ratification.
2.6. Coordination with other assurance providers (if applicable)

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

External assurance providers are the external auditors, the National Audit Office, the Audit Authority, etc. Internal assurance providers are the functions who belong to the second line of defense: financial inspection, quality, risk management, etc.
3. Execution

A flowchart of the internal audit execution process shall be added to the manual.

It is recommended to project a strict timing for the various key components of the audit process: planning, field work and reporting. The final report should be issued not too long after the end of the field work. A timing shall be specified in the manual.

3.1. Audit engagement planning

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 shall be described. The manual can also include a grid with selection criteria for team members.

Before the start of the audit a service order / letter of appointment must be issued for internal auditors to appoint them for the specific audit and notification should be sent to the entity where the audit will take place. An example of such a notification form may be included in the manual.

At the start of the audit a kick-off meeting will be organized with the entity of the auditee. A standardized presentation may be used for this purpose. As a minimum the meeting will cover the objectives of the audit, the timing of the audit and the information requested from the auditee. The meeting shall also solicit areas of concern for the auditee. The internal auditors will make notes on the issues discussed and these notes will be part of the audit file.

3.2. Preliminary survey

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

During the preliminary survey the auditors shall also seek to obtain a full understanding of the criteria or standards that are used by the auditee to measure the performance of the process under audit. If the auditors cannot find adequate measurement criteria, the manual shall describe the process to be followed to establish criteria (based on good practices or on the auditors’ experience), followed by seeking agreement with the auditee on these criteria.

At the end of the preliminary survey the audit team will be able to fine-tune the risk assessment that was made when preparing the annual audit plan. If the results are very different from the annual plan the internal auditors must review their original assessment in order to develop clear and focused audit objectives.

The ultimate objective of the preliminary survey is to generate a good understanding of the audited entity and its operations.

3.3. Development of audit objectives
This is another area where auditors should make the necessary efforts to set up clear and achievable objectives according to the results of the preliminary survey as well the objectives established in the annual audit plan.

Audit objectives shall be directly related to the risk that triggered the audit to be included in the audit plan. If, for example, the risk was about the effectiveness of a certain process, the audit objectives should not focus on compliance issues. The manual shall give a few examples on how to develop good audit objectives. To make sure that senior management later on acknowledges risks that have been identified as important risks to them, it is essential to link the audit objectives to (generally accepted) organization or department control objectives.

### 3.4. Definition of audit scope

Once the audit objectives have been defined, the internal auditors have to think about their scope: what are they going to review and what not. The scope may relate to time period, branches, IT process, etc. As an example, the auditee may suggest to the auditors not to review a particular IT system (because for instance it is going to be replaced in the upcoming months). It is up to internal audit to decide on a scope limitation. But in all cases, the scope should be sufficient enough to achieve the audit objectives.

### 3.5. Audit program

Once the audit objectives and scope have been defined, internal audit shall develop an audit program. The audit program is unique for a specific audit engagement. Only in the case of recurring audits (e.g. regional or branch audits) a standardized template or program may be used.

The audit program will contain the various steps to be undertaken to match the respective audit objectives (e.g. used methodologies and techniques, time schedule, segregation of duties, audited period, type of audit etc.).

### 3.6. Working papers

The audit manual shall specify the content of the working papers, labeling and cross references as well as the process for supervisory approval. All working papers must be part of the audit file.

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

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 these documents.

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

- Permanent file: the permanent file shall contain all information that is relevant to generally understand the unit / function and that does not change from year to year.
- Current file: the current file shall contain only the information required to document the findings and to support the conclusions of a specific audit engagement.

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

3.7.1. Audit approaches

The approach to system based audits will be described.

3.7.2. Auditing techniques

The various internal audit techniques, including their strengths and weaknesses, can briefly be described in the internal audit manual. 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 shall be given in annexes.

3.8. Internal control assessment

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

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

3.9. Audit evidence

The internal audit manual may contain guidance on how to obtain the best available audit evidence and how to document audit evidence. The various kinds of evidence can be explained. All collected audit evidence must be part of the audit file.

3.10. Supervision

The chief audit executive must determine by whom and at what level the supervision of the audit engagement should be performed. Usually it is the responsibility of the most experienced auditor of the team/organization.
Supervision does not only apply to internal audit engagements, but also to various administrative and educational aspects.

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

Special attention shall be given to ways to deal with the concept of supervision in the case of small or even single person internal audit functions.

3.11. Fact finding sheet

The 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 this situation continues to exist? This is the material impact as seen by the auditor.

The finding sheets are shared with the auditee for validation and/or discussion. Through the fact finding sheets the auditees become aware of what the findings of the auditors are, and this gives them the possibility to take corrective actions before the audit ends.

3.12. Closing meeting

The final stage of the auditor’s fieldwork is the closing meeting with the auditees. The objective of this meeting is to summarize the audit findings and the suggested solutions (recommendations) to fix the issues. The findings that are discussed at the closing meeting should never be a surprise for the auditees, as they have already been informed about them during the course of the audit (fact finding sheets or intermediary meetings). The closing meeting is the ultimate test for the auditors to make sure they were not mistaken when identifying conditions or when interpreting criteria. The closing meeting is for the auditees an excellent preparation to the final audit report. Final agreement on how to fix the 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 will be distributed.
4. Reporting

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

4.1. Reporting on internal audit engagements

4.1.1. Intermediary report

Urgent issues identified during an audit may require an intermediary report, because of the high level risk. The intermediary report can be in writing, but urgency may justify an oral report in person, by mail or by phone, before confirming it in a written report. Oral reports must be documented by the internal auditor.

Audits with a long duration or with a number of subtasks may also justify intermediary reports.

An intermediary report does not take away the obligation to issue a final report at the end of the audit. It may be considered to develop a standard form for intermediary reports.

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.

It is up to the auditors to judge upon the need for an intermediary report.

4.1.2. Draft report

The auditor will issue a draft report to solicit comments and suggestions from the auditees. The draft report will have an agreed upon format.

We need to be aware that proper wording plays a crucial role in the attitude of the auditee to accept or reject parts of the report. After all, the auditee must be able to continue to look ‘good’ in the organization.

It may be good to add a few examples of correct and wrong wordings in the annexes.

A good and effective closing meeting will make the draft report more acceptable. The proper people to attend the closing meeting need to be identified.

It is also a reality that the ‘negotiation’ procedure in between draft and final report very often 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 will be included in the manual and in the reporting process.

When the auditee disagrees with parts of the report, there should be a procedure how to deal with these responses:

- If the auditee is right, the auditor has to update its report.
- If the auditee does not agree with some findings, the auditor needs to persuade the auditee. If the disagreement remains, the auditor needs to add the auditee’s comments to the audit report and explain in the audit report why he does not agree with the auditee. Auditors have to be aware that neither senior management nor the audit committee likes to operate as a referee.
- If the auditee’s comments are irrelevant, the auditor will have to provide a response or clarification. This may upset the auditee when he receives the final report.
4.1.3. Final report

It shall be clear for the readers of the report that the finding, as identified by internal audit, is a real issue they should care about. It is therefore of utmost importance to clarify the issue in the eyes of the readers. The issue should not be perceived as an audit problem, but as a real management concern. Many auditors tend to focus on findings only, and sometimes they are requested to do so by senior management and/or audit committees. It is a proper practice, however, to provide senior management and the audit committee with a balanced view: is the organization in control of the process, yes or no? When the auditee has already started to fix the problems (because of the fact finding sheets distributed at an early stage), this should also be acknowledged in the report.

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

Many audit functions are using 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. That is definitely an advantage of scoring. There are, however, also risks associated with scoring:

- The discussion of the draft report with the auditees may focus on the score rather than on the content.
- Auditors often tend to give a middle or neutral score in order to minimize their “personal” risk.

If senior management requires a scoring system, it is therefore better to have a risk scoring system with 4 levels: low, moderate, high and significant. But the important message to convey to management is “Are we in control, yes or no?”

The internal audit manual shall also describe who should be the addressees of an audit report. There will be an existing protocol that has to be respected throughout the organization, but for audit it is very important that for sure these people receive the report that can do something about the problems. The final decision on the addressees is with the chief audit executive.

The internal audit reports will be read by a variety of people. Senior management and the audit committee are interested in the big picture, while operational management (the auditee) is interested in more details. Therefore, it is recommended to include into the report an executive summary for senior management and the audit committee. What to include into the executive summary can be explained in the internal audit manual, and a detailed example can be provided in the annexes.

The audit reports shall include recommendations. It is not sufficient to highlight what goes wrong; the auditors shall also suggest how they see things can improve. These recommendations should not be academic in nature but pragmatic. Auditors’ recommendations remain an advice to management, not an order.

It is recommended to agree with the auditees on actions to be taken. It is a common practice to attach to the audit report an action sheet with target dates agreed upon by the auditees. An example of an action list can be provided in the annexes to the manual.

4.1.4. Reporting to authorities in case of irregularities (fraud)

In some countries internal audit will have to report identified fraud cases to the competent authorities. This procedure, including the request for legal advice, shall be included in the manual.
4.2. Follow-up of audit recommendations

Internal audit shall set up a system to follow up the status of implementation of audit recommendations. Though very often called this way, the purpose is to follow up whether operational management has taken appropriate initiatives to solve the issues identified during the audit.

Depending on the criticality of the issues raised, internal audit may have to decide to undertake a follow-up audit, to ensure that the solutions as implemented by management really address the issues.

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

4.3. Activity reports

On a periodical basis, but at least once a year, internal audit is supposed 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 findings, as well as obstacles, uncovered during the past period.

The reports requested by the CHU shall be developed in accordance with the instructions of the CHU.

4.4. Annual audit opinion / statement of assurance

Many internal audit functions are nowadays required to issue an opinion on the annual Management Assurance Statement. This request represents a challenge for many internal audit functions, as their audits of the past year only cover a portion of the total universe (annual audit planning). Therefore, internal audit has to come up with innovative approaches on how to respond to this request from senior management and the audit committee, whilst still facing resource restrictions.

4.5. Record retention

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

5.1. Quality program

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

- Continuous monitoring
- Internal quality assessments
- External quality assessments

The internal audit manual describes briefly these quality measures.

The chief audit executive shall report on a regular basis to senior management, the CHU and audit committee (if applicable) on the results of the quality program. These reports shall be provided at a minimum annually, as part of the annual activity reporting.

5.2. Audit entity survey

It is a good practice to organize a small audit entity survey at the end of every audit. This is a way, although not always the most objective one, to obtain feedback from the auditees on the effectiveness and usefulness of the audit. The head of the internal audit unit can also meet in person with the auditee to discuss any quality issue.

An audit entity survey is usually a standard form, which can be added in the annexes.

5.3. Ongoing supervision

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

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

Supervision does not only apply to internal audit engagements, but also to various administrative and educational aspects.

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

Ongoing supervision shall be built into the job descriptions and operating routines of the internal audit department.

Ongoing supervision shall be considered internal audit's own set of controls that provide a window into the work performed and the quality of operations.

Special attention shall be given to ways to deal with the concept of supervision in the case of small or even single person internal audit functions.
5.4. Key performance indicators

More mature internal audit functions develop their own balanced score cards or key performance indicators. It is a good way to set objectives and measure their own performance. But, 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)

5.5. Internal quality assessment

Internal quality assessments shall be conducted at least every two years under the direction of the head of the internal audit unit. This process deploys internal staff to examine the operations of the function:

- 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 process shall be described in the manual.

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

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

5.6. External quality assessment

The Institute of Internal Auditors strongly encourages chief audit executives 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 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.

The external quality assessment can 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.
- A 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 shall be reported and a process put in place to follow up of any recommendations.

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.
6. People

6.1. 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 these required qualifications are generally supported by legislative acts.

Soft skills are probably the most important skills required from internal auditors. These skills mostly relate to communication (e.g. interviewing, presentation and reporting techniques) and the analytical way of thinking.

6.2. Recruitment

Many recruitment models can be envisaged. Internal audit functions may recruit their talents:

- directly from university (young graduates);
- from the private sector, with some years of experience;
- from operational departments within the organization because of their technical skills;
- from other public organizations.

Recruitment in the public sector varies from country to country. A link can be made to the relevant legislation or regulation.

6.3. Competency framework

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.

Especially in the case of small internal audit units, a pragmatic approach shall be elaborated in the manual.

6.4. Training and certification

Training shall be organized according to a well developed and balanced internal audit curriculum.

Training courses can be organized internally and externally. Some of these courses may be mandatory for the internal auditors. Training should be organized on a need to have basis and are part of the key performance indicators.

Global or national certifications may be required by law or by an individual organization. Among others, the following global certifications should be recognized:

- Certified internal auditor (link to certifying body should be provided);
- Certification in control self-assessment (link to certifying body should be provided);
- Certified information systems auditor (link to certifying body should be provided);
- Certified financial services auditor (link to certifying body should be provided);
- Certified government audit professional (link to certifying body should be provided).
6.5. Continuing development

Once auditors are trained, the organization also has to take care of the continuing professional development of its internal auditors.

The head of the organization has to support the continuing development of internal auditors. The head of internal audit unit should ensure the opportunity for trainings in a systematic manner and should develop an annual training plan that is based on individual needs of each auditor. Training does not only relate to audit topics but also to new processes, systems and products within the organization (audit objects).

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

6.6. 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.

6.7. Career planning

Some internal auditors will make their career inside internal audit and will stay there for a long period. For others, internal audit may be just a stepping stone in their career. In both cases it is essential to develop a proper career plan for all internal auditors.

In case 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 HR policies of the organization.

6.8. Co-sourcing arrangements

The organization may because of effectiveness, efficiency and economical reasons 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 from the process under audit.

It may also be envisaged to set up certain specialized functions (e.g. IT audit) that may serve more than one organization.
7. Tools

7.1. Flow charting

Internal auditors may use flowcharts to get a better understanding of the flow of a transaction throughout a process. The proper pictograms to use or, in case of flowcharting software, the tool itself can be explained. A simple system/procedure/process can be illustrated with a flowchart. (eventually in annex.)

7.2. Risk assessment tool

Whether the internal audit function is using a more sophisticated risk assessment software tool or a simplified Excel sheet, reference shall be made to these tools in the internal audit manual.

7.3. Data query tools

Data query or data mining tools have become a normal part of the auditor’s toolkit. The usage of these tools shall be explained.

7.4. Sampling

Though sampling has been pretty well automated over the years, it is essential for auditors to know when to use which sampling techniques. Sampling techniques shall be explained in the manual.

7.5. Audit file administration

Audit file administration shall be in line with the national regulations and rules on documentation.

Audit software tools may help the internal audit function to take care of its file administration, following up the entire audit from its planning through execution of fieldwork to the final report. A follow-up process is usually integrated.

7.5.1. Hard copy audit file administration

7.5.2. IT audit file administration
7.6. Promotion of internal audit

Promoting the internal audit function is an ongoing mandate. Helpful for this purpose can be the development of a slideshow or brochure / flyer. Usage of internet and intranet tools is recommended if possible.
8. Knowledge management

8.1. File organization

All internal auditors will gather a variety of valuable information through their network, at seminars or conferences, or just simply over the internet. The internal audit function shall look for a proper and structured way to store and share this information.

8.2. Benchmarking

It is good for the internal audit function to gather some relevant benchmarking data. The IIA’s GAIN network is such an example.

8.3. Glossary of terms

Internal auditors use a lot of technical terms and jargon words. In order to use and apply these words on a consistent basis, it is worth including a small glossary of terms in the manual. See Glossary

8.4. PEM-PAL

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

8.5. The Institute of Internal Auditors

The Institute of Internal Auditors (the IIA) is the global professional organization for internal auditors. Its website offers numerous pages of valuable information.

Most countries have a local affiliate to the IIA. Participation in the local affiliate may be encouraged by the organization, because of the networking opportunities.

8.6. Membership

Membership to various professional organizations (to list which organizations) may be encouraged or requested. The rules are best included in the manual.
9. Interaction with others

9.1. Senior management

Internal audit is by tradition a management tool, the eyes and ears of management. The privileged relationship and structured or ad hoc meetings with senior management can be described.

The role of internal audit with regard to management shall be explained, especially with regard to the independence of internal audit.

9.2. Audit committee

The interaction with the audit committee is still a very young phenomenon in the public sector. When in existence, the relationship should be described as well as the audit committee scope of duties and responsibilities.

9.3. Supreme Audit Institution

The Supreme Audit Institution may rely on the work of internal audit. In most cases they may want to obtain first some assurance on the quality and independence of the internal audit function.

The relationship or cooperation with the Supreme Audit Institution shall be described.

9.4. External audit

In some cases (for example with regard to state owned companies), internal audit may have to cooperate with external auditors. This relationship shall be described.

9.5. Audit Authority

In case the country benefits of European Union funds, internal audit may also have to cooperate with the national Audit Authority who reports directly to the European Commission. This relationship shall be described.

9.6. Central Harmonization Unit (CHU)

The Central Harmonization Unit will provide guidance on methodology to the internal audit function and will also monitor the quality of the internal audit function.
The specific relationship between the CHU and the internal audit function shall be explained in the internal audit manual, especially with regard to what internal audit may and may not expect from the CHU.

9.7. Budget spenders

The budget spenders are in principle the audit objects or auditees vis-à-vis the internal audit function. Some budget spenders may also want to see internal audit as their consultative body.

If the relationship is more than an audit object, it can be explained in the manual.

9.8. Other assurance providers

Special relations will 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.

9.9. Relationship with external experts

The relationship with external experts (if applicable) shall be described.

9.10. Relationship with law enforcement authorities

The relationship of internal audit with law enforcement authorities shall be described, considering the specific legal framework of the country.

9.11. Relationship with the Financial Inspection Service(s)

The relationship of internal audit with the Financial Inspection Services shall be described, taking into consideration the specific legal framework of the country.
Appendix 1: Structure for 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 audit report
  - periodical audit reports
  - Under the Reporting section all of the mandatory internal audit reports should be listed.
Appendix 2: Structure for 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 (what 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