

# QUALITY ASSESSMENT GUIDE FOR PUBLIC SECTOR INTERNAL AUDIT

A TOOLKIT FOR QUALITY IMPROVEMENT

PEM  PAL





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# PREFACE

This guide is a product of knowledge sharing and collaboration among members of the Internal Audit Community of Practice (IACOP), of the Public Expenditure Management Peer-Assisted Learning (PEMPAL) network.

The PEMPAL network, launched in 2006 with the assistance of the World Bank, is a regional body that aims to support reforms in public expenditure and financial management in 21 countries in Central Asia and Central and Eastern Europe by promoting capacity building and exchange of information. The IACOP, one of the three Communities of Practice around which the network is organized, has representatives from 23 countries of the Europe and Central Asia region.

The goal of the IACOP is “to contribute to improved Public Financial Management (PFM) systems by supporting its members to establish a modern and effective internal audit service in their governments that meets international and European Union (EU) standards and facilitates good governance in the public sector.”<sup>1</sup> In the 2012 – 2014 Action Plan, IACOP identified strengthening the quality assurance system of the public sector internal audit activity as a priority area. It also specified development of quality assurance guidelines as a short term objective to be met within two years.

This guide is the fulfillment of that objective and demonstrates the commitment of the IACOP to improving PFM in its member countries. A dedicated working group was established to identify good practice quality assurance arrangements for the public sector internal audit activity and to develop this guide. This publication, similar to the *Good Practice Internal Audit Manual* published by the IACOP in 2012, resulted from an extensive collaborative process, which included participation of practitioners and policymakers in member countries. The IACOP hopes that users will find it valuable for the establishment or improvement of a quality assurance and improvement program for internal auditing in the public sector.

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<sup>1</sup> Source: IACOP Balanced Scorecard

## ACKNOWLEDGEMENTS

This guide exists due to the combined efforts of a number of individuals who participated in the IACOP Quality Assurance Working Group.

Specifically, the IACOP would like to recognize the following key contributors:

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**Nini Eliashvili**, Georgia, Co-leader of the Quality Assurance Working Group

**Svilena Simeonova**, Bulgaria, Co-leader of the Quality Assurance Working Group

Beginning in October 2011, the Quality Assurance Working Group held a series of events in which participants generated ideas and produced the information that forms the basis of this guide. The list of events is as follows:

### *Genesis of Quality Assurance Working Group*

Skopje, Macedonia                      October 6–8, 2011

### *Workshops*

- Budapest, Hungary                      April 17–20, 2012
- Lviv, Ukraine                              September 24–27, 2012
- Tbilisi, Georgia                            January 28–30, 2013
- Yerevan, Armenia                        November 12–15, 2013
- Budva, Montenegro                      January 28–30, 2014
- Bucharest, Romania                      December 2–4, 2014
- Yerevan, Armenia                        October 15–16, 2015

### *Study Visit<sup>2</sup>*

Warsaw, Poland                            November 15–16, 2012

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<sup>2</sup> Participating countries: Albania, Croatia, and Moldova

## ACRONYMS AND ABBREVIATIONS

CHU	Central Harmonization Unit
EU	European Union
HIA	Head of Internal Audit
IACOP	Internal Audit Community of Practice
IIA	Institute of Internal Auditors
IPPF	International Professional Practices Framework
ISPIIA	International Standards for the Professional Practice of Internal Auditing
IT	Information Technology
PEMPAL	Public Expenditure Management Peer-Assisted Learning
PFM	Public Financial Management
QAIP	Quality Assurance and Improvement Program
SAI	Supreme Audit Institution

# 1. INTRODUCTION

The Institute of Internal Auditors (IIA) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.” As part of its commitment to support the operation of robust internal audit functions in its member countries, the Public Expenditure Management Peer-Assisted Learning (PEMPAL) Internal Audit Community of Practice (IACOP) developed a *Good Practice Internal Audit Manual Template* in 2012, to serve as a reference guide for internal audit professionals in the public sector. The *Manual Template* highlights the importance of establishing a quality assurance program to evaluate the quality of the internal audit activity and make recommendations for improvement. This is in line with the mandatory requirement established by the International Standards for the Professional Practice of Internal Auditing (ISPPIA)<sup>3</sup>, and good professional practices, that the internal audit activity must have a quality assurance and improvement program (QAIP) in place. ISPPIA requires the Head of Internal Audit (HIA) to develop and maintain a QAIP that covers all aspects of the internal audit activity and continuously monitor its effectiveness. The program must consist of internal and external assessments, including:

- an internal quality assessment performed by the internal audit unit of its policies and practices;
- an external quality assessment performed by the Central Harmonization Unit (CHU) of the internal audit unit’s methodology and performance; and
- an independent external quality assessment performed by an external, independent party<sup>4</sup> of the overall internal audit system in the public sector.

The purpose of this guide is to assist the relevant internal audit professionals in the public sector to establish an effective QAIP,

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<sup>3</sup> The International Standards for Professional Practice of Internal Auditing (ISPPIA) are mandatory requirements of the International Professional Practices Framework (IPPF) promulgated by the global Institute of Internal Auditors (IIA).

<sup>4</sup> The term “independent party” means that reviewers are not a part of the organization or they were not involved in the development of the organization’s internal audit methodology. The term does not refer to the Central Harmonization Unit (CHU), Financial Inspection, or the country’s Supreme Audit Institution (SAI). Please note that Financial Inspection (also referred to as Financial Control in a few countries) refers to inspection of the public sector within the government.

or strengthen an existing one. As is the nature of guides, this one is not prescriptive but instead aims to illuminate pathways and practices that lead to a QAIP that provides great value to the Public Financial Management (PFM) system in a given country. The sections and annexes are organized to first cover the internal and more frequent aspects of a QAIP, and then progress to the equally important external and periodic assessments. Although this guide follows the International Professional Practices Framework (IPPF) and the IIA's 2012 *Practice Guide – Quality Assurance and Improvement Program*<sup>5</sup>, all content remains the responsibility of the IACOP.

The IACOP hopes that the guide will be a useful tool that assists users to cultivate a robust QAIP that to monitor the progress that is being made and bring to the forefront areas that need to be improved in order to enhance the internal audit activity.

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<sup>5</sup> Institute of Internal Auditors. March 2012. *IPPF – Practice Guide: Quality Assurance and Improvement Program*.

## 2. INTERNAL QUALITY ASSESSMENT PERFORMED BY THE INTERNAL AUDIT UNIT

Continuous improvement in the quality of the internal audit activity begins with internal quality assessments that range from determining whether applicable policies and procedures are established and implemented to the evaluation of the conformance with relevant standards and codes of ethics. The quality assessment program performed by the internal audit unit must consist of the following components:

- **ongoing monitoring** of the performance of the internal audit activity;
- **periodic self-assessment** by the internal audit unit or an assessment facilitated by others in the organization with sufficient knowledge of internal audit practices; and
- an **audited entity survey**.

### 2.1. Ongoing monitoring

Supervision of internal audit professionals and the internal audit activities that they conduct is an integral part of the QAIP within the internal audit function. Supervision implies the ongoing monitoring, reviewing, and coaching of auditors. Although many principles can be taught in advance, for most internal auditors the real training happens on-the-job. Therefore, ongoing monitoring must be built into the job descriptions and operating routines (policies, procedures, and practices) that govern the internal audit unit. Specific guidelines for supervisors on how to gain or enhance necessary skills can be included in the internal audit manual, while bearing in mind that supervisors may also need special training.

Monitoring must also be applied to the various administrative and educational aspects of the internal audit activity, in addition to the specific execution of audit engagements. Ongoing monitoring should be considered the internal audit unit's own set of controls that provide a window into the quality of the audit work performed. Therefore, monitoring related to internal audit engagements must be documented in the audit working papers.

One can expect various levels of supervision for most circumstances in which ongoing monitoring is established. It is the responsibility of the head of internal audit (HIA) to determine by whom, and at what level, the monitoring of the internal audit engagement should be performed. In general, the most experienced auditor in the team or internal audit unit is responsible for the ongoing monitoring process. Typically, senior and junior internal auditors develop a detailed audit program and execute it, while a team leader gives directions and supervises the work of the senior and junior auditors. Usually, the HIA approves all major steps in the audit process and exercises overall oversight over the internal audit engagement.

The following functions form key features of the ongoing monitoring of the internal audit function:

- Each internal auditor who is a member of the internal audit engagement team must continuously assess his/her work to ensure that it complies with the prescribed internal audit methodology.
- The team leader is responsible for guiding and coaching the internal audit team and is thus actively engaged in the ongoing monitoring of team members with regard to the internal audit engagement.
- The HIA is responsible for the overall quality of the internal audit unit and in this role reviews the work of the team leader in order to ensure that he/she has implemented the relevant ongoing monitoring activities. Also, the HIA will usually oversee compliance with applicable internal audit policies.
- Special attention needs to be given to ways to address supervision in the case of small or single person internal audit units since it is important to maintain quality control even in such situations. This can be achieved by inviting the HIA of another public sector entity to review the working papers for an internal audit engagement or by asking the CHU for a specific review.

During the various steps of the internal audit engagement, ongoing monitoring should focus on a number of quality criteria. Box 1 highlights examples of questions that address these criteria and a more complete list can be found in *Annex 1 Checklist to Assess Quality Criteria during Ongoing Monitoring of the Internal Audit Activity*.

***Box 1. Sample questions that address various quality criteria for ongoing monitoring***

- Have all auditors on the internal audit engagement team signed a ‘declaration of independence’?
- Have critical risks to the audited entity been identified during the preliminary survey and recognized in the audit objectives?
- Are all audit steps properly documented in the working papers?
- Has the current internal audit methodology been applied throughout the audit engagement and were appropriate audit techniques used?
- Has the work program been carried out as approved?
- Has a draft report been sent to the auditees, allowing them to review and comment on the findings and recommendations?
- Did the auditees agree to the recommendations?
- Have the auditors duly executed follow-up activities?
- Do internal auditors comply with mandatory training requirements?

## **2.2. Periodic self-assessment by the internal audit unit**

Periodic self-assessment is another integral component of the quality assurance program within the internal audit function. These assessments are conducted to evaluate conformance with basic principles of the International Professional Practices Framework (IPPF) for internal auditing, such as the Definition of Internal Auditing, the Code of Ethics and the ISPPA, and with the specific requirements of the internal audit unit’s own manual and policies. A person or a group of persons within the internal audit unit with sufficient knowledge of good internal audit practices must carry out the periodic self-assessments.

A periodic self-assessment process includes:

- Supervision of the internal audit engagements or missions;
- Completion of prescribed checklists;
- Compilation of feedback from audit clients and other stakeholders through interviews and surveys;

- Selective peer reviews of working papers by staff not involved in the respective audits;
- Review of project budgets, timekeeping systems, audit plan completion;
- Analysis of additional performance metrics (for example, cycle time and recommendations accepted);
- Benchmark of current practices of the IA unit with best internal audit practices.

The internal quality periodic self-assessment or assessment by other qualified persons within the organization should focus on a number of quality criteria. Box 2 highlights questions that address these criteria, and which reference the four attribute and seven performance standards of the ISPPIA. A more complete list of questions is provided in *Annex 2 Checklist to Assess Quality Criteria during the Internal Quality Periodic Self-Assessment*.

### ***Box 2. Sample questions that address various quality criteria during periodic self-assessment***

#### PURPOSE, AUTHORITY, AND RESPONSIBILITY

1. Is the role of internal audit clearly defined in a document (a law, an act or a charter)?
2. Does the document provide internal auditors with unlimited access to information, assets and people?
3. Does the document foresee the provision of both assurance and consulting services by internal auditors?

#### INDEPENDENCE AND OBJECTIVITY

4. Do internal auditors experience difficulties getting audit plans, budget and headcount approved?
5. Can the CHU help in situations where internal auditors feel threatened by senior management?
6. Are internal auditors responsible for any operational activities that in principle should not be part of internal audit's responsibilities?

#### PROFICIENCY AND DUE PROFESSIONAL CARE

7. Is there a process in place to ensure that internal auditors possess, or acquire, the necessary knowledge and skills to conduct individual internal audit engagements?
8. Are internal auditors attentive to fraud indicators (red flags)?
9. Do internal auditors possess the necessary skills to enable them to audit the IT environment?

#### QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

10. Is there an effective quality assurance and improvement program (QAIP) in place?
11. Does the QAIP include ongoing monitoring, internal quality periodic self-assessments and periodic external quality assessments?

#### MANAGING THE INTERNAL AUDIT ACTIVITY

12. Is a risk-based plan established for all internal audit activities?
13. Are resource limitations and their impact on the internal audit activity communicated to senior management?
14. Are appropriate and sufficient audit resources available?
15. Do internal auditors coordinate their activities with the Supreme Audit Institution (SAI)?

#### NATURE OF WORK

16. Do internal auditors provide assurance on the risk management process?
17. Do internal auditors assess the potential for fraud?
18. Do internal auditors assess the effectiveness and the efficiency of the internal control system?

#### ENGAGEMENT PLANNING

19. Do internal auditors develop a detailed plan for every internal audit engagement?
20. Does the plan include clear audit objectives and an appropriate definition of the audit scope?
21. Do internal auditors consider the probability of significant errors and fraud before developing the audit objectives?

#### PERFORMING THE ENGAGEMENT

22. Do internal auditors prepare and use adequate working papers to document audit work?
23. Are internal audit engagements adequately supervised?

#### COMMUNICATING RESULTS

24. Do internal auditors clearly communicate the impact of their findings?
25. Are recommendations pragmatic?

#### MONITORING PROGRESS

26. Is there a process in place to monitor management's actions with regard to audit findings and recommendations?

#### COMMUNICATING THE ACCEPTANCE OF RISKS

27. Is there an escalation process in situations where management is accepting a risk level, which is above the risk appetite of the organization?

At the end of the evaluation exercise, conclusions must be made about the quality of the performance of the IA unit and their conformity to the IPPF. Appropriate follow-up actions should be initiated to generate improvements as necessary. At least annually, the HIA must report the results of internal assessments, corresponding action plans and their successful implementation, to senior management and the audit committee (or its equivalent if established).

### **2.3. Audited entity survey**

It is good practice to ask the audited entity for feedback after an internal audit engagement has been finalized. The internal audit team should bear in mind that this feedback can never be fully objective. Some audited entities may use the feedback survey to punish the internal audit unit for a less than satisfactory audit report. Others may choose to be overly positive in their feedback to internal auditors fearing that more critical responses will bring the auditors back to their doorstep. Nevertheless, a survey of the audited entity at the end of the internal audit engagement is a good tool that can be used by the internal audit unit to obtain valuable information.

As with the other areas of internal quality assessments, the audited entity survey should focus on a number of quality criteria. Box 3 lists questions that address some of these criteria and a template is provided in Annex 3 *Audited Entity Survey Template*.

### ***Box 3. Sample questions on quality criteria for an audited entity survey***

Please provide feedback on your recent experience with the internal audit unit by choosing one of the following four ratings to answer the questions:

#### **Very Satisfied Satisfied Dissatisfied Very Dissatisfied**

- How satisfied are you that adequate notice was given of the timing and duration of the audit?
- To what extent are you satisfied that the auditors had sufficient knowledge of the business area?
- How satisfied are you that the draft report was received within an acceptable timeframe?
- How satisfied are you that the recommendations provided practical and constructive solutions to the issues identified?
- How satisfied are you that implementation of recommendations will contribute to improvements in your unit's risk management, control and governance processes?
- If you used the consultancy services provided by the internal audit unit, were you satisfied with the input provided?

### 3. EXTERNAL QUALITY ASSESSMENT PERFORMED BY THE CENTRAL HARMONIZATION UNIT (CHU)

The CHU is an integral part of the public sector internal audit activity and is the body that is responsible for the development and enforcement of a country's internal audit methodology. One of its tasks is to monitor the overall independence and quality of internal auditing in the public sector. The CHU needs to undertake external quality reviews of the various internal audit units that have been established in national and state government line ministries, local government, budget institutions, and state owned institutions in order to fulfill its obligations. The CHU should undertake its reviews based on a selection process driven primarily by risk and other indicators such as complaints received or issues raised in the press.

Although the external quality assessment performed by the CHU contributes to ongoing improvements in the quality of internal auditing in specific institutions and in the country in general, its reviews can never be considered totally independent because it is a key component of the internal audit system. Therefore, external quality assessments conducted by the CHU are not substitutes for the required periodic external assessments that need to be performed by qualified independent reviewers, and which will include a review of the CHU.

The external quality assessment performed by the CHU of internal audit units should cover a wide range of quality criteria. The CHU should apply a review methodology and depending on its findings it should score an institution's internal audit unit in various categories. Box 4 provides examples of an approach that could be used to assess two of the criteria of ISPPIA's Attribute Standards, along with the relevant review steps and possible ratings. A more complete list can be found in *Annex 4 External Quality Assessment by the Central Harmonization Unit (CHU)*.

Within this Guide, criteria have been developed to assess the current state of maturity of the internal audit function and compliance with the principles established in the International Standards for the Professional Practice of Internal Auditing (ISPPIA). The criteria are divided into two groups: key assessment criteria and secondary assessment criteria.

The conformity with a key criterion is assessed by four different scores: green, yellow, orange, or red. The conformity with a secondary assessment criterion can be assessed by two scores: green or red. The colored scores represent the following assessment:



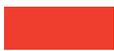
green: overall compliance with the criterion;



yellow: good compliance with the criterion, but improvement is needed in certain areas;



orange: serious non-compliance in some areas that require critical improvements;



red: overall non-compliance with the criterion.

At the level of a single ISPPIA the colors have the same meaning. Those are about the standard itself, and not the criterion. At the overall level the colors represent compliance with the entire set of ISPPiAs.

#### ***Box 4. Samples from Annex 4 of quality criteria and approaches for external assessment by the CHU***

**Key assessment criteria** – noncompliance with these criteria immediately results in a negative score, which heavily impacts the final assessment.

**Secondary assessment criteria** – noncompliance with a secondary assessment criterion has an impact on the final assessment if there are many instances of non-compliance with secondary criteria.

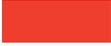
### **Purpose, Authority, and Responsibility (standard 1000)**

To ensure that the role of internal audit is clearly defined in a founding document (for example a charter or internal regulations).

#### **Review steps**

- a. Check whether all founding documents that describe the role of internal audit are properly aligned and consistent.
- b. Assess whether there is a process in place to update these documents whenever changes to standards occur.
- c. Assess whether management clearly understands the role, authority and responsibility of internal audit.
- d. Check whether the current head of the organization has signed the charter.

### Assessment

-  Proper documents exist and they are periodically reviewed. Management fully understands the role of internal audit.
-  Proper documents exist but they are not reviewed periodically and updated where necessary. Management fully understands the role of internal audit.
-  Proper documents exist but management does not understand well the role of internal audit.
-  Proper documents do not exist.

### Independence and objectivity (standard 1100)

To ensure that audit plans, budget and headcount are approved in a timely manner.

#### Review steps

- a. Assess whether audit plans are based on an independent and objective risk assessment.
- b. Check whether the audit plans, budget and headcount are approved without any serious delay to the start of the planned internal audit activities.
- c. Identify the main obstacles to approval of the audit plans, budget and headcount.
- d. Assess whether internal audit is free to select audits without interference.
- e. Assess whether internal audit perceives that there is pressure from management or the head of the institution to change its audit plans.
- f. Check whether there are cases where the head of the institution did not approve a planned audit that was included in the audit plan based on a risk assessment. State the reason(s) given for not granting approval of the planned audit.

### Assessment

-  Audit plans, including budget and headcounts, are approved in a timely manner when justified.
-  Audit plans, including budget and headcounts, are not always approved when justified, or sometimes there is pressure on internal audit to exclude specific audits from the audit plan.

## 4. INTERNAL QUALITY ASSESSMENT OF THE CENTRAL HARMONIZATION UNIT (CHU)

It is good practice for the CHU to assess on a regular basis its own performance and contribution to the internal audit system. In addition, an independent external assessment of the internal audit function will also include an assessment of the work performed by the CHU.

The internal quality assessment of the CHU should focus on a number of quality criteria related to the specific role of the CHU. Box 5 lists some of questions that focus on these criteria. A more comprehensive checklist can be found in Annex 5 *Checklist to Assess Quality Criteria during Internal Assessment of the Central Harmonization Unit (CHU)*.

### ***Box 5. Sample checklist to assess quality criteria related to the CHU***

#### STRATEGIC AND REGULATORY FRAMEWORK

1. Is the role of the CHU clearly defined in the law?

#### ORGANIZATIONAL STRUCTURE

2. Does the CHU have sufficient authority to direct and support the internal audit activity throughout the entire public sector?

#### INTERNAL AUDIT METHODOLOGY

3. Has the CHU developed an appropriate methodology for internal auditing, which is in line with the IIA's International Standards for the Professional Practice of Internal Auditing (ISPPA) promulgated by the IIA?

#### INDEPENDENCE OF INTERNAL AUDIT

4. Is the CHU consulted on the appointment of the heads of the internal audit units in central government bodies?

#### TRAINING AND CERTIFICATION OF INTERNAL AUDITORS

5. Has the CHU developed a training curriculum for internal audit?
6. Has the CHU developed a certification program for internal audit?

#### SUPPORT TO INTERNAL AUDIT

7. Does the CHU provide practical guidance during the start-up phase of an internal audit function?
8. Does the CHU provide needed support to internal audit units or internal auditors requiring specialized skills, for example in information technology (IT)?

#### QUALITY OF INTERNAL AUDIT

9. Does the CHU periodically assess the quality of the performance of internal audit units?

#### MARKETING OF INTERNAL AUDIT

10. Does the CHU raise awareness of the importance of internal audit at the level of the heads of the institutions and senior management?

## 5. INDEPENDENT EXTERNAL QUALITY ASSESSMENT PERFORMED BY AN EXTERNAL INDEPENDENT PARTY

The IIA and many regulatory agencies around the world have broadened their expectations regarding the role of internal audit. Now, internal auditors are expected to play a strategic role in the organization's risk management process in order to (i) help management identify and manage risks across the organization, (ii) reduce risk exposure to acceptable levels, and (iii) monitor ongoing compliance. The result is a greater need for responsiveness from internal audit professionals with specialized public sector experience, who continually update their knowledge and skills. Internal quality assessments conducted by the internal audit unit and external quality assessments performed by the CHU can contribute to improvements in the performance of the internal audit function so that it is better able to fulfill its various roles.

In addition to internal and external quality assessments conducted by the internal audit unit and CHU respectively, the IIA requires that HIAs subject their internal audit functions to independent scrutiny. The IIA's ISPPIA<sup>6</sup> 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." A more frequent assessment schedule may be warranted in certain situations, such as rapid turnover of staff or a change in internal audit leadership.

The independent external quality assessment may take the form of:

- A full blown external review<sup>7</sup>; or
- An internal assessment with an external validation.

A pragmatic and cost effective model for the independent external quality assessment of the internal audit function, in line with the ISPPIA, will need to be established.

At a minimum, the independent review team will need to assess the internal audit function's compliance with ISPPIA. However, an external

<sup>6</sup> Standard 1312 *External Assessments*

<sup>7</sup> This option is comparatively more costly than an internal assessment with an external validation.

quality assessment that adds value will go beyond this minimum threshold. Specifically, the external quality assessment needs to address the following key questions:

- Is the internal audit activity effective and does it focus on the “right” areas?
- Is the internal audit activity as efficient as possible?
- Is internal auditing adding value to the risk, control and governance processes of the organization?
- Is the internal audit function respected and influential within the organization?
- Do internal auditors understand stakeholder needs and expectations and do they use their best endeavors to meet those needs and expectations?
- Do current internal auditing practices reflect leading practices of the profession?
- Does the internal audit function have the right strategies in place for future success?

The results of a well-performed external quality assessment can help to re-align the internal audit activity and improve the strategic value of internal auditing to the organization.

# ANNEXES



# ANNEX 1. CHECKLIST TO ASSESS QUALITY CRITERIA DURING ONGOING MONITORING OF THE INTERNAL AUDIT ACTIVITY

## Engagement Planning (ISPPIA 2200)

- a. Are individual internal audit engagements adequately resourced and properly monitored?
- b. Are the internal auditors familiar with the processes under review?
- c. Have critical risks been identified during the preliminary survey?
- d. Will the audit objectives allow auditors to provide assurance?
- e. Is the scope sufficient to satisfy the audit objectives?
- f. Will the audit program allow internal auditors to achieve the audit objectives and reach a conclusion?
- g. Have auditees been informed about the planned audit?
- h. Were the objectives clearly explained to auditees during the kick-off meeting?

## Performing the Engagement (ISPPIA 2300)

- a. Are all executed steps properly documented?
- b. Is the prescribed methodology being applied and are appropriate audit techniques being used?
- c. Have the internal auditors properly assessed auditees' procedures with regard to the processes under review?
- d. In the absence of auditees' procedures, have the internal auditors discussed with the auditees the assessment criteria that should be used?
- e. Is the obtained evidence sufficient to express an opinion?
- f. Do internal auditors differentiate between critical and less critical findings?
- g. Were findings immediately communicated and discussed with the auditees?
- h. Has the work program been carried out as intended?
- i. Are changes to audit objectives, scope and work program justified and properly approved?

### Communicating Results (ISPPIA 2400)

- a. Were the findings and final conclusion presented to the auditees at a closing meeting?
- b. Do the recommendations address the root cause of the findings?
- c. Are the recommendations practical?
- d. Does the audit achieve its objectives of being able to issue negative or positive assurance?
- e. Has a draft report been sent to auditees, allowing them to review and comment on the findings and recommendations?
- f. Have the internal auditors incorporated the auditees' comments?
- g. Do internal auditors agree on the action plan?
- h. Is the audit report accurate, objective, clear, concise, constructive and timely?
- i. Has the audit report been signed according to the relevant policies?
- j. Have audit objectives been achieved within allocated resource budgets and by agreed target dates, as much as possible?

### Monitoring Progress (ISPPIA 2500)

- a. Have the internal auditors monitored whether the deadlines of the action plan were respected?
- b. Have the internal auditors assessed whether a follow-up audit may be needed?
- c. Have follow-up activities been duly executed by the internal auditors?

### General Areas

- a. Do internal auditors comply with mandatory training requirements?
- b. Do internal auditors respect organization and internal audit policies when completing timesheets and expense reports?
- c. Do internal auditors comply with the code of conduct of the organization and with the code of ethics for internal auditors?
- d. Did internal auditors achieve their personal objectives?

## ANNEX 2. CHECKLIST TO ASSESS QUALITY CRITERIA DURING THE INTERNAL QUALITY PERIODIC SELF-ASSESSMENT

### Purpose, Authority and Responsibility (ISPPIA 1000)

- a. Is the role of internal audit clearly defined in a document (a law, an act or a charter)?
- b. Does this document also explain that internal auditors should not be responsible for any operational activities?
- c. Does this document provide internal auditors with unlimited access to information, assets and people?
- d. Does this document describe internal auditors' reporting line(s)?
- e. Do auditees know about this document?
- f. Does this document cover the delivery of both assurance and consulting services by internal auditors?
- g. Does this document refer to national or international internal auditing standards?
- h. Does this document refer to a code of conduct for internal auditors?

### Independence and Objectivity (ISPPIA 1100)

- a. Does the document grant independence to internal auditors?
- b. What measures are in place to guarantee internal auditors' objectivity?
- c. Are internal auditors independent on paper and in reality?
- d. Do internal auditors experience difficulties getting their audit plans, budget and headcount approved?
- e. Is the head of internal audit (HIA) appointed solely on experience, skills and competence?
- f. What is the process for dismissal of the HIA, including who has authority to remove him/her?
- g. Is there an escalation process in case internal auditors feel their independence is threatened?
- h. Are internal auditors allowed to report on actual findings, that is, can they tell things as they are?

- i. Can the Central Harmonization Unit (CHU) help internal auditors in cases were they feel threatened by senior management?
- j. Are internal auditors invited to participate (as observers) in senior management meetings?
- k. Is there a process in place to deal with conflicts of interest?
- l. Are internal auditors responsible for any operational activities that in principle should not be part of internal audit's responsibilities?
- m. Do internal auditors regularly design procedures for the auditees?
- n. Is there a process in place to disclose any potential impairment to independence and objectivity?
- o. Do internal auditors experience any significant scope limitation(s)?
- p. Is there a process in place to deal with gifts received from auditees or others?
- q. Do internal auditors respect a cooling-off period for internal auditors who transfer from operational units?
- r. Do internal auditors respect a cooling-off period for internal auditors who transfer to operational units?
- s. In situations where internal auditors are responsible for operational activities, does a third party oversee these activities?

#### Proficiency and Due Professional Care (ISPPIA 1200)

- a. Do internal auditors collectively possess the necessary knowledge and skills to fulfill the role of internal auditing within their organization?
- b. Are internal auditors capable of applying the prescribed audit methodology?
- c. Are internal auditors attentive to fraud indicators (red flags)?
- d. Do internal auditors have sufficient skills to audit the information technology environment?
- e. Do internal auditors use IT tools and techniques to perform internal audit engagements?
- f. Do internal auditors have the skills to deal with (difficult) people?
- g. Do internal auditors possess the necessary soft skills?
- h. Do internal auditors possess a professional certification and do they have access to continuous professional development programs for internal auditors?

- i. Does the internal audit unit have the authority to hire external experts when internal auditors lack the appropriate knowledge and skills for certain internal audit engagements?
- j. Are audit objectives focused on the main risk(s) to the organization?

#### Quality Assurance and Improvement Program (ISPPIA 1300)

- a. Is there a quality assurance and improvement program in place?
- b. Is the program established in the audit policies and procedures?
- c. Does the program include ongoing monitoring, periodic internal quality self-assessments and periodic external quality assessments?
- d. Are all aspects of the internal audit unit (role, risk assessment, planning, execution of engagements, reporting and training) covered in the program?
- e. Do meaningful key performance indicators exist in order to measure the performance of the internal audit activity?
- f. Are the results of the quality assurance and improvement program communicated regularly to senior management?
- g. Is feedback periodically solicited from auditees and senior management?
- h. Does the internal audit unit periodically benchmark itself against peers?
- i. Is there evidence that shows that the internal audit function adds value to the organization?
- j. Is it stated that internal auditing activities conform to international standards? If yes, is this statement supported by internal and external quality assessments?
- k. Are instances of non-conformance with international standards disclosed?

#### Managing the Internal Audit Activity ISPPIA (2000)

- a. Is the audit universe known and documented by the internal audit unit? Is the document updated periodically to reflect changes in the audit universe?
- b. Is a risk-based plan established for internal audit activities?
- c. Does the risk-based plan take into consideration any risk management framework that exists within the organization?

- d. Does the internal audit unit solicit input from senior management during the development of the internal audit plan?
- e. Are adequate risk factors used for risk assessments?
- f. Does the internal audit unit identify the key controls in the organization?
- g. Are all areas of the organization given appropriate audit coverage?
- h. Is the impact of resource limitations communicated to senior management by the internal audit unit?
- i. Is the audit plan periodically reviewed?
- j. Does the internal audit unit have appropriate and sufficient audit resources to conduct its activities?
- k. Does the internal audit unit make use of ‘guest’ auditors from other parts of the organization?
- l. Are adequate audit policies and procedures in place, and are they updated on a regular basis?
- m. Does the internal audit unit coordinate its audit activities with other internal assurance providers?
- n. Does the internal audit unit coordinate its audit activities with the Supreme Audit Institution (SAI)?
- o. Do the external auditors rely on the work of internal auditors?
- p. Are internal auditors involved in the development and maintenance of a risk register or assurance map?
- q. Do internal auditors also audit the “second lines of defense” within the organization?
- r. Do internal auditors rely on the work of other assurance providers?
- s. Does the internal audit function periodically report to senior management on its activities?

#### Nature of Work (ISPPIA 2100)

- a. Does the internal audit unit assess the design and effectiveness of ethics programs within the organization?
- b. Does the internal audit unit assess how risk ownership and accountability are established within the organization?
- c. Does the internal audit unit provide assurance on the risk management process?
- d. Do internal auditors assess the potential for fraud?

- e. Does the internal audit unit assess the effectiveness and the efficiency of the internal control system?
- f. Do internal auditors provide an opinion on the adequacy and the effectiveness of the internal control system?
- g. Do internal auditors assess the reliability and the integrity of information?
- h. Does the internal audit unit assess the respect for privacy of information?

#### Engagement Planning (ISPPIA 2200)

- a. Do internal auditors develop a detailed plan for each audit engagement?
- b. Does the plan include clear audit objectives and an appropriate definition of the audit scope?
- c. Do internal auditors conduct a preliminary survey before developing the audit objectives?
- d. Do internal auditors consider the probability of significant errors and fraud prior to the development of the audit objectives?
- e. Does the audit scope include significant systems, records, assets and personnel?
- f. Does the internal audit unit inform management about the upcoming audit engagement?
- g. Does the internal audit unit allocate appropriate and sufficient resources to perform audit engagements?
- h. Do internal auditors develop a detailed audit program, which identifies all steps needed to achieve the audit objectives?
- i. Are the audit programs properly approved?

#### Performing the Engagement (ISPPIA 2300)

- a. Do internal auditors have a process in place to identify relevant, sufficient, reliable and useful information during audit engagements?
- b. Do internal auditors use analytical procedures when conducting audit engagement activities?
- c. Do internal auditors prepare and use adequate working papers to document all audit work?
- d. Is access to audit working papers controlled?

- e. Are there retention requirements for audit working papers?
- f. Are internal audit engagements adequately supervised?
- g. Is evidence of engagement supervision documented?

#### Communicating Results (ISPPIA 2400)

- a. Do internal auditors clearly communicate the impact of audit findings to the auditee?
- b. Do internal auditors acknowledge satisfactory performance by the auditee?
- c. Are internal auditors' communications with the auditee accurate, constructive, objective, clear, concise, complete and timely?
- d. Are the recommendations offered by the internal auditors pragmatic?
- e. Do internal auditors include management's responses in the final reports?

#### Monitoring Progress (ISPPIA 2500)

- a. Does the internal audit unit have a process in place to monitor management actions with regard to audit findings?
- b. Is it clear to the auditees that they are responsible for the timely implementations of remediating actions?

#### Communicating the Acceptance of Risks (ISPPIA 2600)

- a. Is there an escalation process in case management is accepting a risk level, which is above the risk appetite of the organization?

## ANNEX 3. AUDITED ENTITY SURVEY TEMPLATE

AUDIT CLIENT:
AUDIT TITLE:
REPORT DATE:

The internal audit unit is responsible for providing audit clients within the organization with an opinion on the risk management, control and governance processes through the measurement and evaluation of their effectiveness in helping to achieve organizational objectives. We recently completed an audit review in your business area and would welcome your feedback to help us assess our personal performance and identify areas where improvement in our approach would be beneficial to you and other clients. Using the rating scale below, please circle the number in the right hand column that best reflects your views on our performance in each of the listed areas. If a 3 or 4 rating is given, please provide more detail in the Comments section so that we may consider how we can improve.

<b>Rating Scale</b> 1 - Very Satisfied 2 – Satisfied 3 -Dissatisfied 4 - Very Dissatisfied	
<b>PERFORMANCE COMPONENTS</b>	
<b>PLANNING THE AUDIT</b> How satisfied are you that: <ol style="list-style-type: none"> <li>1. You were given adequate opportunity to agree to the scope of the audit before it commenced?</li> <li>2. You were given adequate notice of the timing and duration of the audit?</li> </ol>	1 2 3 4  1 2 3 4  <b>Comments:</b>

<p><b>CONDUCTING THE AUDIT</b></p> <p>To what extent are you satisfied that:</p> <p>3. The internal auditors maintained a professional and courteous approach throughout the audit review?</p> <p>4. The internal auditors had sufficient knowledge of your business area?</p> <p>5. Progress during the engagement, including details of key emerging issues, was adequately communicated to you throughout the audit?</p>	<p>1 2 3 4</p> <p>1 2 3 4</p> <p>1 2 3 4</p> <p><b>Comments:</b></p>
<p><b>REPORTING AUDIT RESULTS</b></p> <p>How satisfied are you that:</p> <p>6. The draft report was received within an acceptable timeframe?</p> <p><i>Date of the end of field work: xx/xx/xx</i></p> <p><i>Date draft report issued: xx/xx/xx</i></p> <p>7. The draft report was clearly presented in terms of the format and clarity of the language used?</p> <p>8. After management’s response to comments, the final report was received within an acceptable timeframe?</p> <p><i>Date comments received: xx/xx/xx</i></p> <p><i>Date final report issued: xx/xx/xx</i></p> <p>9. The recommendations provided practical and constructive solutions to the issues identified?</p> <p>10. The basis for the overall and area specific audit opinions was satisfactorily explained and your comments/views were taken into account?</p>	<p>1 2 3 4</p> <p><b>Comments:</b></p>

<p><b>QUALITY OF INTERNAL AUDIT</b></p> <p>How satisfied are you that:</p> <p>11. The implementation of recommendations will contribute to the improvements in your risk management, control and governance processes?</p> <p>12. The audit provided you with information that will help you to discharge your assurance reporting responsibilities?</p> <p>13. Internal audit contributes to improvements in organizational delivery and the achievement of strategic objectives in your business area?</p>	<p>1 2 3 4</p> <p>1 2 3 4</p> <p>1 2 3 4</p> <p><b>Comments:</b></p>
<p><b>OTHER SERVICES PROVIDED BY INTERNAL AUDIT</b></p> <p>14. Are you aware that the internal audit unit provides consultancy services?</p> <p>15. If you have used the consultancy services provided by internal audit, were you satisfied with the input provided?</p>	<p>Yes No</p> <p>1 2 3 4</p> <p><b>Comments:</b></p>

## ANNEX 4. EXTERNAL QUALITY ASSESSMENT BY THE CENTRAL HARMONIZATION UNIT (CHU)

This assessment utilizes a scoring system to assess the quality of the internal audit conditions and practices using ISPPIA issued by the IIA as a benchmark.

**Key assessment criteria** – noncompliance with these criteria immediately results in a negative score, which heavily impacts the final assessment.

**Secondary assessment criteria** – noncompliance with a secondary assessment criterion has an impact on the final assessment if there are many instances of noncompliance with secondary criteria.

ISPPIA		Questions
1000	Purpose, Authority and Responsibility	1-8
1100	Independence and Objectivity	9-27
1200	Proficiency and Due Professional Care	28-37
1300	Quality Assurance and Improvement Program	38-48
2000	Managing the Internal Audit Activity	49-67
2100	Nature of Work	68-75
2200	Engagement Planning	76-84
2300	Performing the Engagement	85-91
2400	Communicating Result	92-96
2500	Monitoring Progress	97-98
2600	Communicating the Acceptance of Risks	99

## Total score calculation

The scoring mechanism helps with visualization of the areas that require attention. Scores relate to Internal Audit Units and their Heads, as well as to the Institution with respect to its implementation of internal audit in accordance with the law and good practices. This should be made very clear when expressing a final opinion on the quality of the internal audit function.

The scoring mechanism gives more weight to the ISPIAs 1100, 1200, 2000, 2200 and 2300. This implies that a strong non-conformity (that is red ISPIA score) on these specific ISPIAs will immediately result in an overall negative score and final result.

However, it is important to note that the primary objective of the external assessment is to show Internal Audit Units those areas that require improvements.

Assessment results		
ISPIA 1100, 1200, 2000, 2200, 2300 scores	ISPIA 1000, 1300, 2100, 2400, 2500, 2600 scores	Total score
one red		
two or more orange		
	two or more red	
	one red and one orange	
	three or more orange	
one orange		
two or more yellow		
	two orange	
	one red and one yellow	
	one red and all other green	
	one orange and one yellow	
	three or more yellow	
one yellow		
	one orange and all other green	
	two yellow	
	one yellow and all other green	
all green	all green	

## ISPPIA 1000 – Purpose, Authority, and Responsibility

1. To ensure that the role of internal audit is clearly defined in a founding document (for example, a charter or internal regulations).

### Review steps

- a. Check whether all founding documents that describe the role of internal audit are properly aligned and consistent.
- b. Assess whether there is a due process in place to update these documents whenever changes to standards occur.
- c. Assess whether management clearly understands the role, authority and responsibility of internal audit.
- d. Check whether the current head of the organization has signed the charter.

### Assessment

Proper documents exist and they are periodically reviewed. Management fully understands the role of internal audit.

Proper documents exist but they are not reviewed periodically and updated where necessary. Management fully understands the role of internal audit.

Proper documents exist but management does not understand well the role of internal audit.

Proper documents do not exist.

2. To ensure that internal audit is not responsible for any operational activities.

### Review steps

- a. Check whether the responsibilities of internal audit are clearly defined in the founding documents.
- b. Assess whether the current responsibilities and job descriptions of the internal audit staff excludes operational activities.
- c. Assess whether internal audit does not play an excessive role in certain activities (for example, fight against corruption, fraud prevention and investigation, ex-ante sign-off of contracts, etc.) which may create the perception that internal audit is also responsible for these activities.

- d. Assess whether internal auditors are not taking part, in fact or in appearance, in any decision making process.
- e. Assess whether internal auditors are required to regularly sign a declaration of independence.
- f. Check whether cases exist in which internal auditors were held responsible for operational activities.

### Assessment

 Internal auditors do not have operational responsibilities.

 Internal auditors have permanent or occasional operational responsibilities, in fact or in appearance.

### 3. To ensure that internal audit has unlimited access to information, assets and people.

#### Review steps

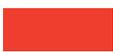
- a. Check whether the founding documents grant internal auditors unlimited access to information, assets and people.
- b. Check whether the term ‘unlimited’ access has been properly defined.
- c. Check whether the access to information is linked to a classification of the information (confidential, classified, etc.).
- d. Check whether internal auditors have the right authorization to access confidential information.
- e. Assess whether there is a due procedure in place with options for escalation in situations where access to information, people or assets is being denied to internal auditors.
- f. Check whether there have been occurrences in which access has been denied.

### Assessment

 There are no restrictions for internal auditors to access information, assets and people.

 Access exists in principle but specific authorization is required for each audit engagement.

 Access exists but not to all information.

 Access is restricted and the scope of internal audit may be limited.

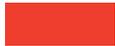
4. To ensure that the reporting lines of internal audit are clearly defined.

**Review steps**

- a. Check whether the founding documents provide for a reporting line to the top official in the organization (for example, the Minister) for the internal audit function.
- b. Check whether the reporting line of the internal audit function to the Central Harmonization Unit (CHU) has been clearly defined.
- c. Assess whether all reporting lines work in practice.
- d. Check whether the founding documents describe the communication between internal audit and auditees / audit clients.
- e. Check whether the founding documents describe the responsibilities of the auditees (audit objects) to respond to audit findings.
- f. Assess whether internal audit produces periodic activity reports, which highlight capacity constraints, budgetary challenges, and other resource issues.

**Assessment**

 The reporting lines of internal audit are well defined and are respected in practice.

 The reporting lines of internal audit are not well defined or are not adequately respected.

5. To ensure that all employees are aware of the role and responsibilities of internal audit.

**Review steps**

- a. Assess whether all employees have access and are knowledgeable about the founding documents, which describe the role and responsibilities of internal audit.
- b. Assess whether all employees are made aware of changes to the founding documents.
- c. Assess whether the role of internal audit is clearly explained during the induction training for new employees.
- d. Check whether internal audit employs a variety of mechanisms to raise awareness of its role and responsibilities in the organization. For example, has internal audit developed a brochure or a flyer, which is available on the intranet (electronically), and includes

frequently asked questions that explain in plain words the role of internal audit and the rights and duties of the auditees?

- e. Assess whether internal audit routinely reiterates its role during the kick-off meetings with audit clients at the beginning of each audit engagement.

### Assessment

Internal audit uses many mechanisms and takes advantage of a variety of opportunities to explain its role. Employees throughout the organization are well aware of its role.

No efforts exist to explain the role of internal audit or employees are not aware of it.

6. To ensure that there is clear understanding of the various services (assurance versus consulting) that internal audit can provide.

### Review steps

- a. Check whether the founding documents establish the provision of both assurance and consulting services by the internal audit unit.
- b. Check whether the founding documents clearly state that management is solely responsible for any action that it takes based on the advice or recommendations received from internal audit.
- c. Assess whether there is a proper procedure in place for management to request consulting services from internal audit.
- d. Assess whether the internal audit plan incorporates a proper balance between assurance and consulting services.
- e. Assess activity reports on the delivery of consulting services.

### Assessment

Internal audit provides both assurance and consulting services. Internal audit bears no responsibility for actions taken by management, in fact or in appearance, as a result of consulting services provided.

Internal audit does not provide consulting services at all, or if it does there exists a perception of responsibility for actions taken by management following internal audit advice.

7. To ensure that the founding documents refer to national or international internal auditing standards.

### Review steps

- a. Check whether all founding documents that describe the role of internal audit are properly aligned with national and/or international internal auditing standards.
- b. Assess whether national or other standards, if applied, depart from international internal auditing standards.

### Assessment

The founding documents refer to generally accepted international internal auditing standards and these standards are applied.

The founding documents do not refer to generally accepted international internal auditing standards, or if they are referred to they are not applied in practice.

8. To ensure that the founding documents refer to a code of conduct for internal auditors.

### Review steps

- a. Check the founding documents for reference to a code of conduct for internal auditors.
- b. Check whether this code of conduct is in line with the Code of Ethics for Internal Auditors promulgated by the IIA.
- c. Assess whether internal auditors must confirm periodically their compliance with the code.

### Assessment

The founding documents refer to a code of conduct for internal audit. This code is in line with the IIA's Code of Ethics. Internal auditors periodically confirm their compliance with the Code of Ethics.

The founding documents do not refer to a code of conduct for internal auditors and internal auditors do not confirm any kind of compliance with ethical values.

Assessment results		
Key criteria	Secondary criteria	1000 score
one red		
two or more orange		
	two or more red	
one orange		
two or more yellow		
one yellow	one red	
one yellow		
all green	one red	
all green	all green	

## ISPPIA 1100 – Independence and Objectivity

### 9. To ensure that the independence of internal audit is granted.

#### Review steps

- a. Check the founding documents for reference to the independence of internal audit.
- b. Check whether the Head of Internal Audit (HIA) has direct and unrestricted access to senior management and the audit committee.

#### Assessment

The founding documents describe the importance of independence of the internal audit activity and internal audit has access to senior management.

The founding documents do not clearly describe the need for independence of the internal audit activity, or access to senior management appears to be a challenge for internal audit.

### 10. To ensure that there are measures in place to guarantee the independence of internal auditors.

#### Review steps

- a. Check whether the regulations and procedures in place grant independence to the internal audit activity. State the relevant regulation(s) that grant independence to the internal audit activity.
- b. Check whether the regulations and procedures state both the organizational and functional independence of the internal audit activity.
- c. Assess whether any improvement is needed in the regulations and procedures.

#### Assessment

The founding documents describe proper measures to be applied in situations where the independence of internal audit is at risk.

The founding documents do not refer to any measures or escalation process when the independence of internal audit is jeopardized.

## 11. To ensure that the internal audit activity is independent in theory and in practice.

### Review steps

- a. Check whether internal audit is organizationally positioned under the head of the institution.
- b. Check whether the head of the institution has delegated the responsibility for the internal audit function to someone else, such as the secretary general or the deputy head of the institution, and whether this delegation is in line with the relevant regulations.
- c. Assess the frequency of meetings between the head of the institution and internal audit.
- d. Check whether internal audit has received any request from management to be involved in the daily activities of the institution.
- e. Assess the frequency of requests issued by the head of the institution for the performance of ad hoc audits in the period under review.
- f. Assess whether the frequency and duration of ad hoc audits have an impact on the fulfillment of the internal audit plan.
- g. Identify any obstacles that threatened the independence of the internal audit activity in the period under review.
- h. Assess whether the HIA can negotiate mitigating measures to the threats to independence of the internal audit activity when any deficiencies are identified.

### Assessment

The internal audit activity is not only independent in theory but also in practice.

The internal audit activity seems to be independent but finds it difficult to disagree with the head of the institution.

The internal audit activity is independent in theory but the head of the institution directs its role and activities.

Although independence of the internal audit activity is granted in the founding documents in reality this is not the case. The HIA may be replaced at the discretion of the head of the institution.

12. To ensure that audit plans, budget and headcount are approved in a timely manner.

**Review steps**

- a. Assess whether audit plans are based on an independent and objective risk assessment.
- b. Check whether the audit plans, budget and headcount are approved without any serious delay to the start of planned internal audit activities.
- c. Identify the main obstacles to approval of the audit plans, budget and headcount.
- d. Assess whether internal audit is free to select audits without interference.
- e. Assess whether internal audit perceives that there is pressure from management or the head of the institution to change its audit plans.
- f. Check whether there are cases in which the head of the institution did not approve a planned audit that was included in the audit plan based on a risk assessment. State the reason(s) given for not granting approval of the planned audit.

**Assessment**

Audit plans, including budget and headcounts, are approved in a timely manner when justified.

Audit plans, including budget and headcounts, are not always approved when justified, or sometimes internal audit is pressured to exclude specific audits from the audit plan.

13. To ensure that the HIA's appointment is based solely on merit.

**Review steps**

- a. Check whether procedures for appointing the HIA are specified in any binding document ( for example a law, rulebook or charter). State in which document(s).
- b. Check whether there are requirements that specify the competencies and skills that the HIA should possess.
- c. Check whether the current head has been appointed according to the stated requirements.

### Assessment

There are adequate skills and competencies requirements for the appointment of the HIA. These requirements are applied without exception.

There are no skills and competencies requirements for the appointment of the HIA. Or the requirements are not consistently adhered to when they exist.

## 14. To ensure that the HIA cannot be dismissed in a random manner.

### Review steps

- a. Check whether procedures for the dismissal of the HIA are clearly specified in a binding document (for example a law, rulebook or charter). State in which document(s).
- b. Check whether an HIA was dismissed during the period under review.

### Assessment

Adequate regulations exist which outline the conditions and the process by which the HIA may be dismissed. These regulations are applied without any exceptions.

No regulations exist which outline the conditions and the process by which the HIA may be dismissed. Or existing regulations are not complied with consistently.

## 15. To ensure that a proper escalation process exists where internal audit perceives that its independence is threatened.

### Review steps

- a. Check whether there are provisions for escalation, which are clearly outlined in a binding document (for example a law, rulebook or charter). State in which document(s).
- b. Check whether there were cases of escalation in the period under review. Assess the results of these cases.

### Assessment

A proper escalation process exists in cases where the independence of the internal audit activity is threatened. This process is consistently applied when necessary in accordance with the relevant provisions.

There is no proper escalation process in cases where the independence of internal audit activity is threatened. If an escalation process exists, it is not carried out consistently.

### 16. To ensure that internal audit is allowed to report on actual findings.

#### Review steps

- a. Check whether specific rules for independence and objectivity are stipulated in the internal audit charter and assess whether these rules are adequate.
- b. Check whether the head of the institution has signed the charter.
- c. Check whether the charter is published on the website of the organization or in any other medium.
- d. Check whether there are cases in which the internal auditors have reported that attempts were made to interfere with their work.

### Assessment

The internal audit charter contains specific provisions to safeguard the independence and objectivity of internal audit. The head of the institution has signed the charter and does not interfere with the work of internal audit.

There are no proper provisions in the internal audit charter that refer to the independence and objectivity of internal audit. Or the head of the institution has not signed the charter. Or there have been cases where attempts were made to interfere with the work of internal audit.

17. To ensure that the CHU can assist internal audit in cases where its independence is threatened by senior management.

#### **Review steps**

- a. Assess the rights of internal audit and possible approaches for escalating cases to the CHU in accordance with applicable legislation.
- b. Assess whether threats to independence are reviewed during the external assessments performed by the CHU.
- c. Assess whether the CHU has the option to give recommendations on independence to the head of the institution.

#### **Assessment**

There is an appropriate escalation process to the level of the CHU in cases where the independence of the internal audit activity is threatened. The CHU has the option to address issues of independence of the internal audit activity to the head of the institution.

There is no escalation process to the level of the CHU.

18. To ensure that internal audit is informed about important decisions that are being made by the institution in a timely manner.

#### **Review steps**

- a. Check whether the HIA takes part in senior management meetings in the institution.
- b. Check whether the HIA's role and participation in senior management meetings are described in a regulation or other internal procedures document (manual).
- c. Assess whether the HIA's role in senior management meetings is limited to observer status only.

#### **Assessment**

Internal audit is systematically invited to attend senior management meetings.

Internal audit is rarely or never invited to senior management meetings.

19. To ensure that there is a due process in place to deal with internal auditors' potential conflicts of interest.

### Review steps

- a. Check whether there are regulations regarding the importance of objectivity of internal auditors.
- b. Check whether internal auditors are required to sign a declaration regarding any conflicts of interest before starting each audit engagement.
- c. Check whether all internal auditors in practice sign this declaration prior to the start of each audit engagement.
- d. Check whether there were any cases of conflict of interest. If there were conflict of interest cases, assess how they were handled.

### Assessment

The principles of objectivity and conflict of interest are documented in regulations. Internal auditors comply with these regulations.

The principles of objectivity and conflict of interest are not defined in regulations. If they are defined, internal auditors do not comply with them consistently.

20. To ensure that internal audit is not responsible for any operational activities.

### Review steps

- a. Check whether there is a prohibition in the law or in any regulation for internal audit to be assigned functions and activities other than internal audit activities.
- b. Check whether internal audit has been assigned functions other than internal audit activities.
- c. Check if internal auditors were assigned operational work and whether this was taken into consideration when assigning and planning future audit engagements. Assess whether alternative arrangements were made in such instances, and the adequacy of those arrangements.

### Assessment

Internal audit is not responsible for operational activities. In specific situations in which internal audit has responsibility for operational activities, the issues concerning objectivity are resolved during the planning phase.

Internal audit is responsible for some operational activities. Or in specific situations where internal audit has responsibility for operational tasks, issues related to objectivity have not been resolved.

21. To ensure that internal audit is not involved in the regular design of procedures for the auditees.

### Review steps

- a. Check whether there is a prohibition in the law or in any other regulation for internal audit to be assigned functions and activities other than internal audit activities.
- b. Check whether there are mechanisms in place for auditees to take full ownership in those circumstances where internal audit occasionally designs procedures for the auditees.
- c. Check whether in situations where internal auditors have designed procedures for audit clients this was considered when planning future audit engagements. Assess the alternative approaches that were used to address possible impairment of objectivity.

### Assessment

Internal audit does not routinely design procedures for audit clients. Where internal audit occasionally designs procedures for the audit client, the issues related to impairment of objectivity are addressed when planning audit activities.

Internal audit frequently designs procedures for audit clients. Or where internal audit occasionally designs procedures, possible impairments to objectivity are not addressed when planning audit activities.

## 22. To ensure that there is a process in place to disclose any potential impairment to independence or objectivity.

### Review steps

- a. Check whether the law, the charter or any other relevant regulation clearly defines the disclosure process for impairments to independence or objectivity.
- b. Check whether the disclosure policies and procedures include the requirement to report matters of impairment to the CHU.
- c. Assess through interviews with the internal auditors whether they know what to do when independence or objectivity is impaired.

### Assessment

An official disclosure process that covers the impairment of independence or objectivity is specified and includes the requirement to report all impairments to the CHU. Internal auditors are fully aware of the disclosure process.

There is no official disclosure process to report impairments to independence or objectivity. If the process is established it does not include the requirement to report to the CHU, or the internal auditors are not fully aware of the process.

## 23. To ensure that no significant scope limitation(s) exist.

### Review steps

- a. Check whether significant scope limitation(s) occurred in the period under review.
- b. Assess whether the auditees have been properly informed about the rights of internal auditors to have full access to information, assets and people.
- c. Check whether the auditors routinely inform the HIA of scope limitations that are imposed during audit engagements.
- d. Check whether the HIA informs the head of the institution when scope limitations are imposed during internal audit engagements. Assess whether appropriate measures were applied.

### Assessment

No significant scope limitations occurred in the period under review. If scope limitations occurred, they were properly addressed through the escalation process.

Significant scope limitations occurred and they were not properly addressed.

24. To ensure that there is a process in place to deal with gifts received from auditees or others.

### Review steps

- a. Check whether the organization has established rules on receipt of gifts by employees.
- b. Check whether the code of conduct for internal auditors stipulates the procedures that employees should follow when they are offered gifts.
- c. Assess whether there have been instances in which internal auditors were offered gifts during the period under review. Assess the appropriateness of the actions that were taken when internal auditors were offered gifts.

### Assessment

There are clear procedures in place that address the receipt of gifts by internal auditors. These procedures are known and routinely applied by internal auditors.

There are no clear procedures that address the receipt of gifts by internal auditors. Or internal auditors are not fully aware of the procedures that do exist. Or there have been situations in which internal auditors accepted gifts and there were concerns about the perceived objectivity of the internal auditor.

25. To ensure that there is a cooling-off period for internal auditors who transfer **from** operational units within the organization.

### Review steps

- a. Check whether a cooling-off period has been established for auditors who transfer from operational units within the organization.
- b. Check whether this cooling-off period is complied with in practice.
- c. Assess whether proper disclosures were made in cases where internal auditors could not comply with the cooling-off period.

### Assessment

There are clear policies and procedures in place that address a mandatory cooling-off period for internal auditors who transfer from operational units within the organization. These procedures are known and complied with by internal auditors.

There are no clear procedures that address a cooling-off period for internal auditors who transfer from operational units within the organization. Or internal auditors are not fully aware of applicable policies and procedures. Or internal auditors who transferred from operational units within the organization did not comply with the required cooling-off period and this affected the perceived objectivity of the internal auditors.

26. To ensure that there is a cooling-off period for internal auditors who transfer to operational units within the organization.

### Review steps

- a. Check whether a cooling-off period has been established for auditors who transfer to operational units within the organization.
- b. Check whether the required cooling-off period is complied with in practice.

### Assessment

There are clear policies and procedures in place that address a cooling-off period for internal auditors who transfer to operational units within the organization. These procedures are known and complied with by internal auditors.

There are no clear policies and procedures that address a cooling-off period for internal auditors who transfer to operational units within the organization. Or internal auditors are not fully aware of the applicable policies and procedures. Or internal auditors transferred to operational units within the organization and did not comply with the required cooling-off period and this affected the perceived objectivity of the internal auditors.

27. To ensure that a third party oversees operational activities for which the internal audit function has responsibility.

### Review steps

- a. Check whether there are appropriate policies and procedures in place for oversight by a third party of operational activities performed by the internal audit function.
- b. Check whether applicable policies and procedures are complied with in practice.

### Assessment

 Policies and procedures exist that address independent oversight by a third party of operational activities that are the responsibility of the internal audit function. Applicable policies and procedures are complied with in practice.

 Policies and procedures do not exist that address independent oversight by a third party of operational activities that are the responsibility of the internal audit function. Or policies and procedure exist, but they are not complied with in practice.

Assessment results		
Key criteria	Secondary criteria	1100 score
one red		
two or more orange		
	two or more red	
one orange		
two or more yellow		
one yellow	one red	
one yellow		
all green	one red	
all green	all green	

## ISPPIA 1200 – Proficiency and Due Professional Care

28. To ensure that internal auditors collectively possess the necessary knowledge and skills to fulfill their role.

### Review steps

- a. Check whether a competency model has been developed which covers all the necessary skills and knowledge that are critical for the proper execution of audit engagements. Check whether the model is updated regularly.
- b. Check whether proper job descriptions exist for internal auditors.
- c. Assess whether internal auditors are knowledgeable about their role and responsibilities.
- d. Assess whether internal auditors have the necessary experience and professional certification.
- e. Assess whether internal auditors possess the necessary knowledge to perform their job.
- f. Check whether required knowledge is assessed prior to the internal audit engagement.
- g. Assess whether there is on-the-job training for less experienced internal auditors.

### Assessment

Internal audit has developed a competency model of all required skills and experience for the conduct of internal audit engagements. This model is regularly updated and compared with the available resources. Solutions are found to fill identified skills gap on a timely basis.

Internal audit has not developed a sustainable competency model but finds acceptable solutions to deal with identified skills gap.

Internal auditors do not collectively possess the necessary knowledge and skills to perform planned audit engagements. The scope of audit engagements is adjusted to match the skills of the internal auditors.

Internal auditors do not collectively possess the necessary knowledge and skills to fulfill their role, and auditors who do not possess the required knowledge and skills perform audit engagements.

29. To ensure that internal auditors are capable of applying the prescribed internal audit methodology.

#### **Review steps**

- a. Check whether the CHU internal audit manual has been adapted to the specific environment of the institution.
- b. Assess whether internal auditors fully understand the prescribed internal audit methodology.
- c. Check whether appropriate training is provided on the prescribed audit methodology and subsequent updates.
- d. Check whether appropriate internal audit procedures and templates exist.
- e. Assess whether internal auditors are aware of these procedures and templates.

#### **Assessment**

An internal audit manual exists with appropriate procedures and templates adapted to the environment of the institution. Internal auditors are well trained to apply the prescribed methodology.

There is no internal audit manual adapted to the environment of the institution. Or there is an appropriate internal audit manual but internal auditors do not know how to apply the prescribed methodology.

30. To ensure that internal auditors are attentive to fraud indicators (red flags).

#### **Review steps**

- a. Assess whether internal auditors are aware that fraud is an important risk to consider when performing audit engagements.
- b. Assess whether internal auditors know how to identify fraud risks and the ways in which it may occur.
- c. Assess whether internal auditors know how to respond to fraud indicators.

### Assessment

Internal auditors are well aware of fraud mechanisms and indicators. They consistently consider the risk of fraud in internal audit engagements.

The risk of fraud is not consistently considered in internal audit engagements.

### 31. To ensure that internal auditors possess the necessary skills and competencies to audit the IT environment.

#### Review steps

- a. Assess whether internal auditors possess appropriate knowledge of the IT environment.
- b. Check whether the internal audit unit has a certified IT specialist.
- c. Assess whether an appropriate framework, such as, Control Objectives for Information Related Technology (COBIT) is being applied.
- d. Check whether IT audits are outsourced.
- e. Check whether proper training on IT audit is provided to internal auditors.
- f. Check whether the prescribed methodology contains adequate guidance on IT audit.

### Assessment

Internal auditors possess general knowledge of IT risks and processes. The internal audit unit has at least one specialized IT auditor or alternatively has access to co-sourcing solutions.

Internal auditors do not possess a general knowledge of IT risks and processes. The internal audit unit has at least one specialized IT auditor or alternatively has access to co-sourcing solutions.

Internal auditors do not possess a general knowledge of IT risks and processes. The internal audit unit does not have a specialized IT auditor. The unit has access to co-sourcing solutions.

Internal auditors do not possess a general knowledge of IT risks and processes. The internal audit unit does not have a specialized IT auditor and has no access to co-sourcing solutions.

32. To ensure that internal auditors use appropriate IT tools and techniques when performing internal audit engagements.

#### **Review steps**

- a. Check whether the use of IT tools and techniques is properly described in the internal audit manual.
- b. Check that IT tools and techniques are currently used by internal auditors to conduct internal audit engagements.
- c. Assess whether internal auditors are fully aware of the advantages of using proper IT tools and techniques.
- d. Check whether proper training on IT tools and techniques is included in the training plan for the period under review.

#### **Assessment**

IT tools and techniques are available and are currently used by internal auditors for internal audit engagements.

IT tools and techniques are not available. Or the available IT tools and techniques are either not useful or used by internal auditors.

33. To ensure that internal auditors know how to interact appropriately with audit clients.

#### **Review steps**

- a. Check whether training on problem resolution is included in the training plan.
- b. Assess how internal auditors deal with challenges and obstacles.

#### **Assessment**

Internal auditors know how to solve problems and perform their duties.

Internal auditors are not well prepared to solve problems or do not perform their duties adequately.

34. To ensure that internal auditors possess the necessary communication skills.

**Review steps**

- a. Check whether training on oral and written communication skills are included in the training plan.
- b. Check whether adequate communication skills are part of the recruitment criteria for internal auditors.
- c. Assess whether the audit findings demonstrate the professionalism of the internal auditors.
- d. Assess whether the audit recommendations are useful and practical for the audited entity.
- e. Interview employees of the audited entities in order to assess the professionalism of the internal auditors.

**Assessment**

Good communication skills are key criteria for the recruitment of internal auditors. All internal auditors possess the necessary communication skills.

Not all internal auditors possess adequate communication skills.

35. To ensure that there are certification and continuing professional development programs in place for internal auditors.

**Review steps**

- a. Check whether certification and training of internal auditors are regulated through internal procedures.
- b. Check whether planned training programs are actually implemented.
- c. Assess internal auditors' degree of satisfaction with the training program.
- d. Check whether certification is maintained by adequate continuing professional development.
- e. Assess whether the current training and certification practices are in line with the prescribed requirements.

### Assessment

Certification and continuing professional development of internal auditors are regulated and requirements are complied with routinely.

Certification and continuing professional development of internal auditors are not properly regulated. Or in cases where regulations do exist, the requirements are not adhered to in practice.

36. To ensure that external experts are used when internal auditors lack the appropriate knowledge and skills.

### Review steps

- a. Check whether the regulations and procedures establish the right and appropriate processes to invite experts to assist with internal audit engagements.
- b. Assess in which areas outside expertise is needed. Match the identified needs with actual use of experts.
- c. Check whether the budget incorporates contingencies for the use of external experts.
- d. Check whether the role and the objectives (terms of reference) of the external experts are clearly defined in a contract or agreement.
- e. Assess whether the experts perform in accordance with the job specifications and also transfer knowledge to the internal audit unit.

### Assessment

Regulations permit the use of external auditors. External experts are used where the knowledge, expertise and skills of the internal auditors are insufficient to perform an internal audit engagement. The appropriate budget for the use of expert is approved as necessary.

The internal regulations do not foresee the possibility of using external experts. Or where the regulations permit the use of external experts, there are budgetary limitations that restrict the use of external experts. Or internal auditors perform audit engagements without involving external experts on cases in which they do not possess appropriate knowledge, expertise or skills.

### 37. To ensure that the audit objectives are focused on the main risk(s).

#### Review steps

- a. Assess whether internal audit has an adequate methodology in place to identify, assess and prioritize risks.
- b. Assess whether internal audit has an independent and unbiased approach to the assessment of risks.
- c. Assess whether internal auditors differentiate between critical and less critical risks.
- d. Assess whether internal auditors take into account senior management's views on risk and risk management.

#### Assessment

Internal audit applies an appropriate risk assessment methodology. The results of the risk assessment performed by internal auditors are validated by risk management staff and senior management's views. The audit objectives of individual engagements reflect the results of the risk assessment exercise.

Internal audit applies an appropriate risk assessment methodology. The results of the risk assessment performed by internal audit are validated by risk management staff and senior management's views. The audit objectives of individual engagements do not reflect the results of the risk assessment exercise.

Internal audit applies an appropriate risk assessment methodology but does not solicit the views of risk management staff and senior management with regard to risks.

Internal audit does not apply an appropriate risk assessment methodology.

Assessment results		
Key criteria	Secondary criteria	1200 score
one red		
two or more orange		
	two or more red	
one orange		
two or more yellow		
one yellow	one red	
one yellow		
all green	one red	
all green	all green	

## ISPPIA 1300 – Quality Assurance and Improvement Program

38. To ensure that the internal audit activity has an adequate quality assurance and improvement program in place.

### Review steps

- a. Check whether the HIA has established and maintains a quality assurance and improvement program.
- b. Check whether all auditors are acquainted with the concept and components of the quality assurance and improvement program.
- c. Check whether the quality assurance and improvement program is fully operational.

### Assessment

The internal audit activity has a quality assurance and improvement program in place. All internal auditors are familiar with the program.

Internal audit does not have a quality assurance and improvement program in place. Or in cases where a program exists, the internal auditors are not familiar with it.

39. To ensure that the quality assurance and improvement program is embedded in all internal audit policies and procedures.

### Review steps

- a. Check whether the quality assurance and improvement program is specified in any legal or other relevant document.
- b. Check whether the concept of quality assurance and improvement is embedded throughout all steps of the internal audit methodology.

### Assessment

The quality assurance and improvement program is embedded in all steps of the internal audit methodology.

The quality assurance and improvement program is not embedded in the most important steps of the internal audit methodology.

40. To ensure that the quality assurance and improvement program includes ongoing monitoring, periodic internal self-assessments and independent external quality assessments.

#### **Review steps**

- a. Check the content and methodology of the quality assurance and improvement program.
- b. Check whether ongoing monitoring is defined as an important component of the daily internal audit activities.
- c. Assess responsibilities for ongoing monitoring.
- d. Assess the templates and tools that are used for ongoing monitoring.
- e. Assess the quality of ongoing monitoring and whether a consistent approach is applied.
- f. Check whether periodic self-assessment is well defined as part of the quality assurance and improvement program.
- g. Check whether the periodic self-assessment is included in the annual audit plan.
- h. Assess whether the internal auditors who are responsible for periodic internal self-assessments are independent, objective and exercise due professional care.
- i. Assess the templates and tools that are used for periodic internal self-assessments.
- j. Assess the overall quality of the periodic internal self-assessments.
- k. Check whether the results of the periodic internal self-assessments are properly reported.
- l. Check whether due consideration has been given to the recommendations that result from the periodic internal self-assessments.
- m. Check whether periodic external quality assessments conducted by independent reviewers are a well-defined component of the quality assurance and improvement program.

- n. Check whether the program envisages that external assessments could be performed as completely independent external assessments or as self-assessments with independent external validation.
- o. Check whether the external assessment has been included in the budget.
- p. Check whether the program includes independence and competency criteria for the persons who will perform the external assessment.
- q. Check whether the results of the external assessment are properly reported.
- r. Check whether due consideration has been given to the recommendations that result from the external assessment.

### Assessment

 The quality assurance and improvement program includes ongoing monitoring, periodic internal self-assessments and independent external quality assessments. Internal audit consistently performs all these components.

 The quality assurance and improvement program includes ongoing monitoring, periodic internal self-assessments and independent external assessments. Internal audit consistently performs ongoing monitoring and self-assessments. However, external assessments are not performed.

 The quality assurance and improvement program does not include all components (ongoing monitoring, periodic internal self-assessments and independent external assessments). Internal audit consistently performs ongoing monitoring but internal self-assessments and external assessments have not been performed.

 The quality assurance and improvement program does not include all components (ongoing monitoring, periodic internal self-assessments and independent external assessments). Internal audit does not consistently perform ongoing monitoring, and neither internal self-assessments nor external assessments have been performed.

41. To ensure that the quality assurance and improvement program covers all aspects of the internal audit function (role, risk assessment, planning and execution of engagements, reporting and training).

#### **Review steps**

- a. Assess the content and methodology of the quality assurance and improvement program.
- b. Assess whether actual performance of the quality assurance and improvement program is consistent with the prescribed methodology.
- c. Assess the training and professional development program.

#### **Assessment**

The methodology of the quality assurance and improvement program is adequate and consistently applied.

The methodology of the quality assurance and improvement program is not adequate. Or the methodology is adequate but it is not consistently applied.

42. To ensure that the internal audit function has meaningful key performance indicators to measure its performance.

#### **Review steps**

- a. Check whether key performance indicators are defined in the internal audit methodology and procedures.
- b. Assess the criteria of the indicators especially with regard to their usefulness.
- c. Check whether regular reporting on key performance indicators occurs.

#### **Assessment**

Meaningful key performance indicators are well defined. They are consistently measured and reported.

Performance indicators do not exist or are poorly defined.

43. To ensure that the results of the quality assurance and improvement program are regularly communicated to senior management.

#### **Review steps**

- a. Assess whether senior management is aware of the existence of a quality assurance and improvement program.
- b. Check whether regular reporting occurs.
- c. Check whether the HIA regularly reports on the implementation of the recommendations that arise from the various assessments.

#### **Assessment**

The results of the quality assurance and improvement program are consistently communicated to senior management. Management is also informed about the implementation of recommended actions.

The results of the quality assurance and improvement program are not consistently communicated to senior management.

44. To ensure that internal audit periodically solicits feedback from auditees and senior management.

#### **Review steps**

- a. Check whether an audit survey is sent to auditees after the completion of each internal audit engagement.
- b. Check whether an audit survey is sent periodically to senior management.
- c. Check whether the results of the audit surveys are properly analyzed and given due attention by the HIA.
- d. Check whether the results of the surveys are periodically communicated to senior management.

#### **Assessment**

Internal audit regularly solicits feedback from senior management and from auditees. The results of the feedback are communicated to senior management.

Internal audit does not solicit feedback from senior management and auditees on a regular basis.

45. To ensure that each internal audit unit periodically benchmarks itself against comparable units (nationally and internationally).

#### Review steps

- a. Check whether the internal audit unit participates in national and international events where best practices are presented and discussed.
- b. Check whether internal auditors maintain regular contact with peers.
- c. Check whether the internal audit function benchmarks itself periodically against best practices.

#### Assessment

Internal audit keeps abreast of current trends and approaches in internal auditing. Internal audit benchmarks itself against best practices and informs senior management about the results of such benchmarking exercises.

Internal audit does not keep abreast of recent trends in internal auditing.

46. To ensure that internal audit brings real value to the institution.

#### Review steps

- a. Assess whether internal audit cares about the value it provides, for example through collecting feedback within the organization.
- b. Assess how internal audit measures its value.
- c. Interview users of internal audit services (the head of the institution, senior management, and operational management) on the value they receive from internal audit.

#### Assessment

Internal audit cares about the value it provides and how stakeholders perceive the benefits and the value added by internal auditing. It measures its value via feedback obtained from various stakeholders. All stakeholders confirm the value of internal audit.

Internal audit cares about the value it provides and how stakeholders perceive the benefits and the value added by internal auditing. The stakeholders perceive that the performance of internal audit is average and there is much room for improvement.

Internal audit cares about the value it provides but does not take into account stakeholders' perception of its values. Stakeholders do not see any value in internal auditing and are not interested in the services provided by the internal audit activity.

Internal audit does not care about whether it delivers value to its stakeholders. It has a controlling/inspection approach and therefore the value of its performance is not relevant. Stakeholders confirm this attitude.

47. To ensure that any statement on compliance with International Standards for the Professional Practice of Internal Auditing is supported by the results of internal and external quality assurance assessments.

#### **Review steps**

- a. Check whether the usage of the statement “conducted in accordance with the International Standard for the Professional Practice of Internal Auditing” is defined in the methodology.
- b. Assess whether internal auditors are familiar with the use of this term.
- c. Check a few internal audit reports for the presence of this statement.
- d. Check whether this statement is supported by the results of internal and external quality assurance assessments.

#### **Assessment**

Internal audit does not use the statement “conducted in accordance with the International Standards for the Professional Practice of Internal Auditing”, unless the use of this statement is supported by the results of both internal and external quality assurance assessments.

Internal audit uses the statement “conducted in accordance with the International Standards for the Professional Practice of Internal Auditing” in its reports although use of the statement is not supported by the results of internal and external quality assurance assessments.

48. To ensure that any noncompliance with International Standards for the Professional Practice of Internal Auditing (ISPPIA) is properly disclosed.

**Review steps**

- a. Check whether disclosure of noncompliance with ISPPIA is defined in the methodology.
- b. Check a few internal audit reports for the presence of such disclosures.
- c. Check whether the reason for noncompliance has been clearly explained.
- d. Check whether the impact of noncompliance is described.

**Assessment**

Internal audit properly discloses noncompliance with ISPPIA as necessary.

Internal audit does not disclose noncompliance with ISPPIA as necessary.

Assessment results		
Key criteria	Secondary criteria	1300 score
one red		
two or more orange		
	two or more red	
one orange		
two or more yellow		
one yellow	one red	
one yellow		
all green	one red	
all green	all green	

## ISPIIA 2000 – Managing the Internal Audit Activity

49. To ensure that a complete, meaningful, manageable and sustainable audit universe exists.

### Review steps

- a. Check whether the audit universe has been determined and is regularly updated.
- b. Check whether the audit universe consists of all relevant objectives, processes, activities and departments/units in the institution.

### Assessment

Internal audit has developed a complete audit universe that is updated in a timely manner with new objectives, programs, processes and entities.

Internal audit does not possess a complete audit universe.

50. To ensure that internal audit activities are driven by a risk-based plan.

### Review steps

- a. Check whether there are adequate procedures for the development of a risk-based audit plan.
- b. Check whether proper risk factors, criteria for assessment, risk weights and scores have been defined.
- c. Check whether the risks associated with the objectives, processes and activities of the institution have been identified and assessed.
- d. Check whether changes in objectives, activities, resources, and the operational environment are taken into account when conducting the risk assessment and developing the risk-based audit plan.
- e. Check whether the risk assessment process has been properly documented.
- f. Check whether the strategic and annual plans are updated periodically.
- g. Check whether the risk-based audit plans are discussed with senior management before final release.

## Assessment

Internal audit develops risk-based audit plans using appropriate risk factors and risk criteria. Senior management is consulted during the process. Changes in the organization's activities are immediately reassessed. The entire risk assessment process is documented.

Internal audit develops risk-based audit plans using appropriate risk factors and risk criteria. Senior management is consulted during the process. Changes in the organization's activities are not immediately reassessed. Or the entire risk assessment process is not properly documented.

Internal audit develops risk-based audit plans using appropriate risk factors and risk criteria. Senior management is not consulted during the process. Or changes in the organization's activities are not immediately reassessed. Or the entire risk assessment process is not documented.

Internal audit develops risk-based audit plans but does not use appropriate risk factors and risk criteria. Senior management is not consulted during the process. Changes in the organization's activities are not reassessed. The entire risk assessment process is not documented.

51. To ensure that the internal audit plan takes into consideration any risk management framework that exists within the institution.

### Review steps

- a. Check whether a risk management framework exists within the institution.
- b. Check whether the existing risk management framework and its results have been assessed by internal audit.
- c. Check whether the results of the existing risk management framework are considered during the development of the strategic and annual audit plans.

### Assessment

A risk management framework exists and is taken into account by internal audit. Or a risk management framework does not exist. Or the risk management framework that exists is not useful for internal audit purposes.

A risk management framework exists and is useful but is not taken into account by internal audit.

52. To ensure that input from senior management has been solicited and considered for the development of the internal audit plan.

### Review steps

- a. Assess the ways in which senior management's input is solicited and considered in the development of the internal audit plan.
- b. Assess the justification provided to include areas proposed for audit by senior management in the audit plan.

### Assessment

The input from senior management is duly considered in the development of the internal audit plan.

The input from senior management is not considered in the development of the internal audit plan.

53. To ensure that adequate risk factors are used for the risk assessment process.

### Review steps

- a. Check whether the risk factors are in accordance with the specifics of the processes of the institution.
- b. Check whether key risk factors have been defined.
- c. Check whether proper criteria for the assessment of the selected risk factors have been identified.
- d. Check whether the significance/ weight of each risk factor has been rated.

### Assessment

Internal audit has developed adequate risk factors for its risk assessment process.

Internal audit has not developed adequate risk factors for its risk assessment process.

#### 54. To ensure that key controls are identified.

##### Review steps

- a. Check whether controls that address a key risk or a number of risks are properly identified.
- b. Check whether the adequacy of key controls are analyzed and assessed.

##### Assessment

Internal audit identifies key controls as part of its risk assessment process.

Internal audit does not identify key controls as part of its risk assessment process.

#### 55. To ensure that internal audit gives appropriate audit coverage to all areas of the institution.

##### Review steps

- a. Check whether total coverage of the audit universe has been outlined in the strategic plan.
- b. Check whether classification and prioritization of the processes, activities, and auditees have been made in accordance with the identified risk levels.

##### Assessment

The total audit universe is covered over a certain period of time.

The total audit universe is not covered over a certain period of time.

#### 56. To ensure that the audit plan is reviewed periodically.

##### Review steps

- a. Assess whether the audit plan is reviewed in the event of significant changes in the audit universe or when new risks arise.
- b. Check whether senior management is involved in the review of the audit plan.
- c. Check whether the head of the institution approves changes to the audit plan.

## Assessment

The audit plan is reviewed periodically and whenever major changes occur in the organization.

The audit plan is not reviewed periodically or when major changes occur in the organization.

57. To ensure that internal audit has appropriate and sufficient resources to conduct its activities.

## Review steps

- a. Check whether internal audit periodically analyzes the resources that it needs to perform the audit activities outlined in the audit plan.
- b. Check whether the analysis considers both the skills and the number of auditors needed to perform the internal audit activities according to the audit plan.
- c. Check whether knowledge of IT and fraud indicators are part of the assessment of skills needed.
- d. Check whether succession planning is incorporated in the assessment process.
- e. Check whether there are resources to hire external experts when necessary.
- f. Check whether resource limitations are promptly reported to management.

## Assessment

Internal audit periodically analyzes whether its resources are sufficient in quality and quantity to perform its audit activities. The qualitative analysis contains an assessment of IT skills and fraud awareness. Succession planning is part of the process.

Internal audit periodically analyzes whether its resources are sufficient in quality and quantity to perform its audit activities. The qualitative analysis contains an assessment of IT skills and fraud awareness. Succession planning is not part of this process.

Internal audit periodically analyzes whether its resources are sufficient in quality and quantity to perform its audit activities. The qualitative analysis does not contain an assessment of IT skills and fraud awareness. Succession planning is not part of this process.

Internal audit does not periodically analyze whether its resources are sufficient in quality and quantity to perform its audit activities.

58. To ensure that the impact of resource limitations is communicated to senior management.

**Review steps**

- a. Check whether an assessment has been made of the quality and quantity of resources needed to implement the audit plan.
- b. Check whether an assessment has been made of the impact of resource limitations.
- c. Check whether senior management has been informed in a timely manner about resource limitations and the impact on the institution.

**Assessment**

Senior management is timely informed about any internal audit resource limitations.

Senior management is not informed about any internal audit resource limitations.

59. To ensure that internal audit makes use of ‘guest’ auditors coming from other parts of the organization.

**Review steps**

- a. Check whether the policies and procedures allow internal audit to invite experts (non-auditors) from other parts of the organization to assist the audit team with technical matters.
- b. Check whether these experts have any conflict of interest with respect to the audited area.

**Assessment**

Internal audit uses ‘guest’ auditors to supplement its technical competence.

Internal audit does not use ‘guest’ auditors.

60. To ensure that internal audit has adequate audit policies and procedures, and that these procedures are updated on a regular basis.

#### **Review steps**

- a. Check whether the existing procedures are sufficient to perform various types of internal audit engagements.
- b. Check whether the current procedures require the use and organization of working papers.
- c. Check whether the procedures prescribe the retention of and access to audit files.
- d. Check whether the procedures are updated on a regular basis.

#### **Assessment**

Internal audit has adequate and updated audit policies and procedures.

Internal audit does not have adequate audit policies and procedures.

61. To ensure that internal audit activities are properly coordinated with other internal assurance providers.

#### **Review steps**

- a. Check whether the mandates of other internal assurance providers are documented.
- b. Check whether internal audit has conducted an assessment of the work of these internal assurance providers.
- c. Check whether the internal audit unit and other internal assurance providers exchange information and reports.
- d. Check whether internal audit activities are coordinated with other internal assurance providers in order to avoid duplication.
- e. Check whether internal audit relies on the results of the work of other internal assurance providers.

#### **Assessment**

Internal audit has assessed the work of other internal assurance providers. Internal audit coordinates its activities with these providers.

Internal audit does not coordinate its activities with other internal assurance providers.

62. To ensure that internal audit coordinates its activities with the Supreme Audit Institution (SAI).

**Review steps**

- a. Check whether cooperation between internal and external auditors is described in any official document.
- b. Check whether consideration is given to external audit activities in the internal audit planning process.
- c. Check whether external auditors have access to all internal audit files.
- d. Check whether internal and external auditors share information and reports.
- e. Check whether internal and external audit activities are coordinated in order to avoid duplication.

**Assessment**

Internal audit coordinates its activities with the external auditor.

Internal audit does not coordinate its activities with the external auditor.

63. To foster respect for the work of internal auditors by the external auditors.

**Review steps**

- a. Interview the external auditors in charge of the audit of the institution.
- b. Interview the HIA about the Supreme Audit Institution's view of the internal audit unit.

**Assessment**

External audit respects the work of internal audit and relies on its work.

External audit does not value the work of internal audit.

64. To ensure that internal audit plays an appropriate role in the development and maintenance of a risk register or assurance map.

### Review steps

- a. Check whether a risk register exists and the extent of internal audit's contribution.
- b. Check whether an assurance map exists and the extent of internal audit's contribution.

### Assessment

Internal audit plays a key role in the development of a risk register and assurance map when these exist.

Internal audit does not play a role in the development of the existing risk register or assurance map for the organization.

65. To ensure that the second lines of defense within the institution receive proper audit coverage.

### Review steps

- a. Check whether the audit universe includes the second lines of defense.
- b. Check whether appropriate consideration has been given to the second lines of defense during the risk assessment process.

### Assessment

The second lines of defense are included in the scope of internal audit activities and are reviewed.

Internal audit does not audit the second lines of defense.

66. To ensure that internal audit activities are properly coordinated with other external assurance providers.

#### Review steps

- a. Check whether the mandate of other external assurance providers is documented.
- b. Check whether internal audit has conducted an assessment of the work of these external providers.
- c. Check whether internal audit and other external assurance providers exchange information and reports.
- d. Check whether the activities of internal audit and other external assurance providers are coordinated in order to avoid duplication.
- e. Check whether internal audit relies on the results of the work of other external assurance providers.

#### Assessment

Internal audit has assessed the work of other external assurance providers. Internal audit coordinates its activities with these providers.

Internal audit does not coordinate its activities with other existing external assurance providers.

67. To ensure that internal audit periodically reports to senior management on its activities.

#### Review steps

- a. Check whether the charter and the procedures define the content and the frequency of audit activity reports that should be communicated to the head of the institution by internal audit.
- b. Assess the usefulness of these reports from senior management's point of view.

#### Assessment

Internal audit periodically reports to senior management on its activities. Management values these reports.

Internal audit does not report on its activities to senior management.

Assessment results		
Key criteria	Secondary criteria	2000 score
one red		
two or more orange		
	two or more red	
one orange		
two or more yellow		
one yellow	one red	
one yellow		
all green	one red	
all green	all green	

## ISPPIA 2100 – Nature of Work

68. To ensure that internal audit reviews the design and effectiveness of ethical programs within the institution.

### Review steps

- a. Check whether internal auditors focus on ethical issues in their evaluation of the institution’s objectives, programs and activities.
- b. Check whether there is sufficient emphasis on ethics in internal audit engagements and reports.

### Assessment

Internal audit reviews the effectiveness of various ethics programs.

Internal audit does not review ethics programs.

69. To ensure that internal audit reviews how risk ownership and accountability are established within the institution.

### Review steps

- a. Check whether internal audit provides an opinion on the alignment of various programs, processes and activities with the mission and objectives of the institution.
- b. Assess whether the concepts of risk ownership and accountability are examined throughout the internal audit engagements and reflected in audit reports.

### Assessment

Internal audit reviews how risk ownership and accountability are established within the institution.

Internal audit does not consider risk ownership and accountability in its activities.

## 70. To ensure that internal audit provides assurance on the risk management process.

### Review steps

- a. Check whether the risk management process is included in the audit universe.
- b. Check whether the risk management process is given due consideration during the risk assessment exercise.
- c. Assess whether internal audit reviews the effectiveness of the risk management process.
- d. Assess whether internal audit reviews the alignment of residual risk with the risk appetite of the organization.
- e. Assess whether internal audit reviews the existence and completeness of the risk registers.
- f. Assess the role that internal audit plays in the risk management process.

### Assessment

Internal audit provides regular assurance on all components of the risk management process. Internal audit provides advisory services with regard to risk management.

Internal audit provides assurance on some components of the risk management process. Internal audit provides advisory services with regard to risk management.

Internal audit does not provide assurance on the risk management process but plays an advisory role in the process.

Internal audit does not provide assurance on the risk management process and does not play any advisory role in the process.

71. To ensure that internal audit pays sufficient attention to the risk of fraud.

#### Review steps

- a. Check whether the risk of fraud is considered during the risk assessment process.
- b. Check whether the risk of fraud is considered during the planning process of individual audit engagements.

#### Assessment

Internal audit considers the risk of fraud during the risk assessment and planning phase of individual audit engagements.

Internal audit does not pay specific attention to the risk of fraud.

72. To ensure that internal audit reviews the effectiveness and adequacy of the internal control system.

#### Review steps

- a. Check whether internal audit systematically reviews the effectiveness (do control address risk?) and adequacy (do controls work in practice?) of controls.
- b. Check whether internal audit proactively provides advice on effective and adequate controls during the development of new processes and systems.

#### Assessment

Internal audit reviews both the effectiveness and the adequacy of controls. Internal audit proactively advises the institution on effective and adequate controls.

Internal audit reviews both the effectiveness and adequacy of controls. Internal audit does not proactively provide advice on effective and adequate controls.

Internal audit reviews mainly cover the adequacy of controls.

Internal audit does not systematically review the effectiveness and adequacy of controls.

73. To ensure that internal audit contributes to the delivery of an opinion on the adequacy and the effectiveness of the overall internal control system.

#### **Review steps**

- a. Check whether the head of the institution requires an opinion on the effectiveness and adequacy of the overall internal control system.
- b. Assess the role of internal audit in the process to arrive at an opinion on the effectiveness and adequacy of the overall internal control system.
- c. Check whether internal audit can express an opinion based on sufficient audit coverage of the organization.

#### **Assessment**

Internal audit expresses an opinion on the overall system of internal control when required to do so. This opinion is supported by sufficient audit coverage of the organization.

Internal audit provides an opinion on the entire system of internal control without proper audit coverage.

74. To ensure that internal audit provides assurance on the reliability and integrity of information.

#### **Review steps**

- a. Check whether information integrity and reliability are included in the audit universe.
- b. Check whether information integrity and reliability are given due consideration during the risk assessment exercise.
- c. Assess whether internal audit reviews the effectiveness of information integrity and reliability.
- d. Assess the role that internal audit plays with respect to information integrity and reliability.

#### **Assessment**

Internal audit provides regular assurance on information integrity and reliability.

Internal audit does not provide assurance on information integrity and reliability.

75. To ensure that internal audit provides assurance on the privacy of information.

**Review steps**

- a. Check whether privacy of information is included in the audit universe.
- b. Check whether the privacy of information is given appropriate consideration during the risk assessment exercise.
- c. Assess whether internal audit reviews the effectiveness of information privacy.
- d. Assess the role that internal audit plays with respect to information privacy.

**Assessment**

 Internal audit provides regular assurance on privacy of information.

 Internal audit does not provide assurance on privacy of information.

Assessment results		
Key criteria	Secondary criteria	2100 score
one red		
two or more orange		
	two or more red	
one orange		
two or more yellow		
one yellow	one red	
one yellow		
all green	one red	
all green	all green	

## ISPPIA 2200 - Engagement Planning

76. To ensure that internal audit develops a detailed plan for every audit engagement.

### Review steps

- a. Check for the existence of detailed plans for a sample of internal audit engagements.
- b. Check whether the team leader signed off on the engagement plans in the sample.
- c. Check whether the HIA signed off on the engagement plans in the sample.
- d. Check whether the sample engagement plans include the required information to conduct the audit.

### Assessment

Internal audit develops detailed plans for all audit engagements. These plans are properly authorized.

Internal audit does not develop detailed plans for all audit engagements or plans are not properly authorized.

77. To ensure that a preliminary survey is conducted before developing the audit objectives.

### Review steps

- a. Check whether the methodology prescribes a standard approach for conducting a preliminary survey.
- b. Check whether appropriate questionnaires exist for the preliminary survey.
- c. Check a sample of files to determine whether preliminary surveys were conducted.

### Assessment

Internal audit performs a preliminary survey before the development of the audit objectives.

Internal audit does not systematically perform a preliminary survey before the development of the audit objectives.

78. To ensure that internal audit considers the probability of significant errors and fraud before developing the audit objectives.

#### **Review steps**

- a. Check whether internal audit assesses the probability of significant errors and fraud when conducting its own risk assessment prior to the development of the audit engagement plan.

#### **Assessment**

Internal audit assesses the probability of significant errors and fraud prior to the development of the audit objectives.

Internal audit does not systematically assess the probability of significant errors and fraud prior to the development of the audit objectives.

79. To ensure that the internal audit engagement plan includes clear audit objectives and an appropriate definition of the audit scope.

#### **Review steps**

- a. Assess whether the audit objectives are aligned with the risk(s) identified during the risk assessment process.
- b. Check whether a proper preliminary survey took place.
- c. Assess whether the risk(s) identified during the risk assessment process is updated with information acquired during the preliminary survey.
- d. Assess whether all structural units, documents and assets that will be subject to the audit have been defined, including the people who will be interviewed.
- e. Assess whether the duration and scope of the audit have been defined.
- f. Check whether the impact of possible scope limitations has been assessed.

## Assessment

Internal audit defines clear audit objectives in line with the results of the annual risk assessment process and the preliminary survey. The scope is sufficient to satisfy the audit objectives.

Internal audit defines clear audit objectives in line with the results of the annual risk assessment process but not with the results of the preliminary survey. The scope is sufficient to satisfy the audit objectives.

Internal audit defines audit objectives, which are not in line with the results of the annual risk assessment process and the preliminary survey. The scope is sufficient to satisfy the audit objectives.

Internal audit does not define audit objectives in line with the results of the annual risk assessment process and the preliminary survey. The scope is insufficient to satisfy the audit objectives.

80. To ensure that operational management is properly informed about the upcoming internal audit engagement.

## Review steps

- a. Check whether a procedure is in place to inform management about the upcoming internal audit engagement.
- b. Assess whether this procedure is consistently and fully applied.
- c. Check whether the objectives and the scope of the internal audit engagement are presented to the management of the audited process/structure as early as possible.
- d. Check whether the audit team members and the duration of the audit have been specified.
- e. Check whether a kick-off meeting was held to discuss issues related to the internal audit engagement.

## Assessment

Internal audit properly informs management about the objectives, scope and timing of upcoming audit engagements.

Internal audit does not systematically or properly inform management about the objectives, scope and timing of upcoming audit engagements.

81. To ensure that the audit scope is sufficient and appropriate to achieve the audit objectives and includes significant systems, records, assets and people.

### Review steps

- a. Review a sample of audit files and check whether significant systems, records, assets and personnel are included in the scope.

### Assessment

The audit scope is sufficient and appropriate to achieve audit objectives and includes a review of significant systems, records, assets and people.

The audit scope is not always sufficient and appropriate to achieve audit objectives or does not always include a review of significant systems, records, assets and people.

82. To ensure that sufficient and appropriate resources are allocated to perform internal audit engagements.

### Review steps

- a. Check whether auditors with appropriate skills were selected for internal audit engagements.
- b. Check whether external experts with specific skills were hired when the need arose.
- c. Check whether the available resources are sufficient to deal with the nature and complexity of internal audit engagements.

### Assessment

Appropriate and sufficient audit resources have been allocated to perform internal audit engagements.

The audit resources allocated to perform internal audit engagements are not consistently appropriate or sufficient.

83. To ensure that a detailed audit program is developed, which identifies all steps needed to achieve the audit objectives.

#### **Review steps**

- a. Check whether the audit program includes methods and techniques that are to be used during the audit engagement.
- b. Check whether audit steps are complete and sufficiently detailed to enable achievement of the audit objectives.
- c. Check whether the steps in the audit program were allocated to individual internal auditors on the team for execution.

#### **Assessment**

Detailed audit programs are developed for every internal audit engagement.

Audit programs are not developed or are not specific enough to enable the achievement of the audit objectives.

84. To ensure that the audit programs are properly approved.

#### **Review steps**

- a. Check whether the HIA approves the detailed audit programs that internal auditors prepare for internal audit engagements.
- b. Check whether changes to approved audit programs are authorized.

#### **Assessment**

The HIA approves all audit programs. Changes to existing programs are properly authorized.

Audit programs or changes to existing programs are not consistently approved.

Assessment results		
Key criteria	Secondary criteria	2200 score
one red		
two or more orange		
	two or more red	
one orange		
two or more yellow		
one yellow	one red	
one yellow		
all green	one red	
all green	all green	

## ISPPIA 2300 - Performing the Engagement

85. To ensure that internal audit has a process in place to identify relevant, sufficient, reliable and useful information during internal audit engagements.

### Review steps

- a. Check whether internal auditors acquire the necessary information by holding interviews, making useful enquiries from relevant employees, observing the current processes, and by reviewing relevant documents (internal procedures and reports).

### Assessment

Internal audit identifies and analyzes all relevant information during the internal audit engagements.

Internal audit sometimes overlooks relevant information, or spends too much time analyzing irrelevant information.

86. To ensure that internal auditors use analytical procedures when performing their engagements.

### Review steps

- a. Check whether the methodology describes which analytical procedures can be used in specific circumstances.
- b. Assess whether internal auditors understand the use and value of analytical procedures.

### Assessment

Internal auditors use analytical procedures in an appropriate way.

Internal auditors do not understand how and when to use analytical procedures.

87. To ensure that internal auditors prepare and use adequate working papers to document their audit work.

### Review steps

- a. Check whether the methodology clearly defines the format and content of working papers.
- b. Review a sample of audit files for the completeness and adequacy (proper cross-referencing) of the working papers.
- c. Review a sample of audit files for evidence of adequate supervision of the working papers.

### Assessment

Internal audit maintains proper working papers that document the execution of the approved audit program. Preparation of the working papers is monitored on a regular basis and they are properly cross-referenced.

Internal audit maintains working papers that deviate from the approved audit program. The working papers are cross-referenced and regularly supervised.

Internal audit maintains working papers that deviate from the approved audit program. Preparation of the working papers is supervised but they are not cross-referenced.

Internal audit does not maintain working papers.

88. To ensure that access to the working papers is properly controlled.

### Review steps

- a. Check whether appropriate policies exist for access to internal auditors' working papers.
- b. Check whether manual working papers are properly secured.
- c. Check whether proper access rights control access to electronic working papers.
- d. Assess whether internal auditors are aware of the security requirements and arrangements for working papers.

### Assessment

Access to audit working papers is well organized and respected.

Access to audit working papers is not organized or respected.

## 89. To ensure that proper retention requirements exist for audit working papers.

### Review steps

- a. Check whether appropriate policies exist for the retention of working papers.
- b. Assess whether the HIA seeks legal advice regarding the retention timeframe for working papers where uncertainties exist.
- c. Check whether the internal auditors comply with the requirements for the retention procedure.

### Assessment

Retention of audit working papers is well organized and respected.

Retention of audit working papers is not organized or respected.

## 90. To ensure that audit engagements are adequately supervised.

### Review steps

- a. Check whether the methodology prescribes that all audit engagements should be adequately supervised.
- b. Interview staff about how supervision and coaching take place.

### Assessment

Audit engagements are adequately supervised and appropriate coaching of internal auditors takes place.

Audit engagements are not well supervised.

**91. To ensure that evidence of supervision is documented.**

**Review steps**

- a. Review a sample of audit files and check for evidence of proper supervision.

**Assessment**



Evidence of supervision is properly documented.



Evidence of supervision is not documented.

Assessment results		
Key criteria	Secondary criteria	2300 score
one red		
two or more orange		
	two or more red	
one orange		
two or more yellow		
one yellow	one red	
one yellow		
all green	one red	
all green	all green	

## ISPPIA 2400 – Communicating Results

92. To ensure that internal audit clearly communicates the impact of its findings.

### Review steps

- a. Assess whether the audit findings distinguish between significant and less significant issues.
- b. Assess whether internal audit clearly states what the impact on the institution will be if the significant issues highlighted by the findings are not addressed.
- c. Interview senior management about the significance of audit findings.
- d. Assess whether the audit conclusion includes a clear and substantiated message.

### Assessment

The impact of critical audit findings is clearly communicated to the audit client or senior management.

Internal audit does not know how to differentiate between significant and less significant findings. The impact of critical findings is not communicated to audit clients or senior management.

93. To ensure that internal audit acknowledges satisfactory performance of the auditees.

### Review steps

- a. Assess whether internal audit focuses on both positive and negative findings.
- b. Assess whether a satisfactory opinion is based on sufficient evidence.
- c. Check whether internal audit clearly provides positive or negative assurance.

### Assessment

The audit reports present a balanced view.

Internal audit focuses only on negative aspects.

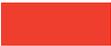
94. To ensure that internal audit reports are accurate, constructive, objective, clear, concise, complete and timely.

#### **Review steps**

- a. Review a sample of audit reports using the defined quality criteria.

#### **Assessment**

 The audit reports meet all the desired quality criteria and are accurate, constructive, objective, clear, concise and timely.

 One or more of the desired quality criteria is missing in the internal audit reports.

95. To ensure that audit recommendations are pragmatic.

#### **Review steps**

- a. Assess whether the recommendations contain constructive proposals on how to improve issues identified in the audit findings.
- b. Assess whether the recommendations can contribute to improvements in the institution's activities.

#### **Assessment**

 The audit recommendations are pragmatic and will help to improve the controls without jeopardizing the organization.

 The audit recommendations are not implementable in practice or they do not address the root cause of the problems that are identified.

96. To ensure that management's response is included in the final audit reports.

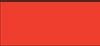
#### **Review steps**

- a. Assess whether the auditees are given the opportunity to express their opinions on audit findings and recommendations.
- b. Assess whether disagreements on audit findings and recommendations that are not resolved are included in the final audit report.

## Assessment

 Management's responses are always included in the final audit reports.

 Management's responses are not systematically included in the final audit reports.

Assessment results		
Key criteria	Secondary criteria	2400 score
one red		
two or more orange		
	two or more red	
one orange		
two or more yellow		
one yellow	one red	
one yellow		
all green	one red	
all green	all green	

## ISPPIA 2500 – Monitoring Progress

97. To ensure that internal audit has a process in place to monitor management's actions with regard to the audit findings and recommendations.

### Review steps

- a. Check whether the methodology prescribes a specific process for the monitoring of management's follow-up on audit findings and recommendations.
- b. Check whether internal audit has a manual or automated system in place to follow up on audit findings and recommendations.
- c. Check whether internal audit takes proper action when the implementation of recommendations from the audit is overdue.
- d. Check whether internal audit reviews the adequacy of management's remediation.

### Assessment

Internal audit has a proper process in place to follow up on management's actions with regard to audit findings and recommendations from assurance engagements.

Internal audit does not have a process in place to monitor management's follow-up on audit findings and recommendations.

98. To ensure that it is made clear to auditees that they bear the risk and responsibility for the timely implementation of remediating actions.

### Review steps

- a. Check whether this responsibility is clearly defined in the internal audit charter and other relevant documents.
- b. Interview some auditees and assess whether they are aware of their responsibility in this regard.

### Assessment

The auditees are fully aware of their responsibility with regard to the (non-) implementation of audit recommendations.

The auditees believe they must follow the recommendations made by internal audit and therefore they are not ultimately responsible for implementation risks.

Assessment results		
Key criteria	Secondary criteria	2500 score
one red		
two or more orange		
	two or more red	
one orange		
two or more yellow		
one yellow	one red	
one yellow		
all green	one red	
all green	all green	

## ISPIIA 2600 – Communicating the Acceptance of Risks

99. To ensure that there is an escalation process in place in case management chooses to accept a risk level that is above the risk appetite of the institution.

### Review steps

- a. Check whether the methodology defines the steps to be taken by internal audit in such a situation.
- b. Assess whether internal audit implements the prescribed steps when needed.

### Assessment

There is an escalation process that internal audit follows when management assumes risk levels that are beyond the risk appetite of the organization.

Internal audit does not take any steps when management assumes risk levels that are beyond the risk appetite of the organization.

Assessment results		
Key criteria	Secondary criteria	2600 score
one red		
two or more orange		
	two or more red	
one orange		
two or more yellow		
one yellow	one red	
one yellow		
all green	one red	
all green	all green	

## ANNEX 5. CHECKLIST TO ASSESS QUALITY CRITERIA DURING INTERNAL ASSESSMENT OF THE CENTRAL HARMONIZATION UNIT (CHU)

### Strategic and Regulatory Framework

- a. Is the role of the CHU defined in the law?
- b. Is there a law that clearly defines the role of the internal audit function in the public sector?
- c. Is the law reviewed on a periodic basis?
- d. Are bylaws and internal regulations related to internal auditing up-to-date and consistent with the law?
- e. Does the CHU have direct access to the Minister of Finance or other members of the Government?
- f. Did the CHU develop a strategy, a policy paper or another document that defines the role, objectives and roadmap for the future of internal auditing in the public sector?

### Organizational Structure

- a. Does the CHU have sufficient authority to direct and support the internal audit function throughout the entire public sector?
- b. Does the CHU have sufficient and adequate resources to fulfill its mandate?
- c. Do CHU personnel have hands-on internal auditing experience?
- d. Does the CHU have sufficient expertise to provide guidance on information technology (IT) based audit tools?
- e. Does the CHU publish an annual report that covers the state of internal auditing in the public sector and on the activities performed by the CHU?
- f. Is the CHU involved in internal auditing or any other operational activities that might conflict with their harmonization responsibilities?

### Internal Audit Methodology

- a. Has the CHU developed an appropriate methodology for internal audit, which is aligned with International Standards for the Professional Practice of Internal Auditing (ISPPA) issued by the IIA?
- b. Does the methodology include specialized topics such as IT audit?
- c. Is the methodology updated on a regular basis?
- d. Does the CHU recommend that internal auditors use IT based tools and techniques?
- e. Are the Heads of Internal Audit (HIAs) involved in the development and updating of the internal auditing methodology?
- f. Is the methodology widely distributed among internal auditors?

### Independence of Internal Audit

- a. Has the CHU developed general criteria for the recruitment of internal auditors in the public sector?
- b. Is the CHU consulted on the appointment of HIAs in central government bodies?
- c. Does the CHU help to safeguard the independence of internal auditors?
- d. Is the CHU part of the escalation process in situations where the independence of the internal audit activity is challenged?

### Training and Certification of Internal Auditors

- a. Has the CHU developed a training curriculum for internal auditors?
- b. Does the CHU organize structured trainings for all levels of internal auditors?
- c. Has the CHU developed a certification program for internal audit?
- d. Does the CHU keep a register of all Certified Internal Auditors?
- e. Does the CHU organize periodic meetings for the HIAs at the central government level to meet and discuss challenges and good practices in internal auditing?
- f. Does the CHU organize an annual knowledge sharing and networking event for internal auditors?
- g. Does the CHU regularly inform internal auditors about topics of interest to the profession?

### Support to Internal Audit

- a. Does the CHU provide practical guidance during the start-up phase of an internal audit unit?
- b. Does the CHU support internal audit units whose staff and activities require specialized skills (for example IT)?
- c. Does the CHU initiate joint audit activities with internal audit units?
- d. Does the CHU initiate thematic audits?

### Quality of Internal Audit

- a. Does the CHU periodically assess the quality of work done by internal audit units?
- b. Does the CHU periodically assess the quality of its activities and performance?

### Marketing of Internal Audit

- a. Does the CHU raise awareness of the heads of the institutions and senior management in the public sector as to the role and importance of internal auditing?
- b. Does the CHU participate in regional and international events organized by the international auditing community?

