



BHUTAN GOVERNMENT INTERNAL AUDIT STANDARDS

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Designed by Bhutan Printing Solutions

MINISTRY OF FINANCE

CENTRAL COORDINATING AGENCY FOR INTERNAL AUDIT SERVICE

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Applying the IIA International Standards to Bhutan Government

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TABLE OF CONTENTS

INTRODUCTION	1
ATTRIBUTE STANDARDS	3
1000 - PURPOSE, AUTHORITY AND RESPONSIBILITY	3
1010 - RECOGNITION OF THE <i>DEFINITION OF INTERNAL AUDITING, THE CODE OF ETHICS</i> AND THE <i>STANDARDS IN THE INTERNAL AUDIT CHARTER</i>	5
1100 - INDEPENDENCE AND OBJECTIVITY	5
1110 - ORGANIZATIONAL INDEPENDENCE	5
1111 - DIRECT INTERACTION WITH THE BOARD	7
1120 - INDIVIDUAL OBJECTIVITY	7
1130 - IMPAIRMENT TO INDEPENDENCE OR OBJECTIVITY.....	7
1200 - PROFICIENCY AND DUE PROFESSIONAL CARE	9
1210 – PROFICIENCY.....	9
1220 - DUE PROFESSIONAL CARE	10
1230 – CONTINUING PROFESSIONAL DEVELOPMENT.....	11
1300- QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME	11
1310 - REQUIREMENTS OF THE QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME	12
1311 - INTERNAL ASSESSMENTS	12
1312 - EXTERNAL ASSESSMENTS.....	12
1320 – REPORTING ON THE QUALITY ASSURANCE AND IMPROVEMENT PROGRAM.....	14
1321 – USE OF “CONFORMS WITH THE INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING”	14
1322 – DISCLOSURE OF NON-CONFORMANCE	15
PERFORMANCE STANDARDS.....	16
2000 – MANAGING THE INTERNAL AUDIT ACTIVITY.....	16
2010 – PLANNING.....	16
2020 – COMMUNICATION AND APPROVAL	17
2030 – RESOURCE MANAGEMENT	17
2040 – POLICIES AND PROCEDURES.....	18
2050 – COORDINATION.....	18
2060 – REPORTING TO SENIOR MANAGEMENT AND THE BOARD	18
2070 – EXTERNAL SERVICE PROVIDER AND ORGANIZATIONAL RESPONSIBILITY FOR INTERNAL AUDITING.....	19
2100 – NATURE OF WORK	19
2110 – GOVERNANCE.....	20

2120 – RISK MANAGEMENT	20
2130 - CONTROL	21
2200 - ENGAGEMENT PLANNING	22
2201 - PLANNING CONSIDERATIONS.....	22
2210 - ENGAGEMENT OBJECTIVES	23
2220 - ENGAGEMENT SCOPE	23
2230 - ENGAGEMENT RESOURCE ALLOCATION	24
2240 - ENGAGEMENT WORK PROGRAMME	24
2300 - PERFORMING THE ENGAGEMENT	25
2310 - IDENTIFYING INFORMATION	25
2320 - ANALYSIS AND EVALUATION.....	25
2330 - DOCUMENTING INFORMATION	25
2340 - ENGAGEMENT SUPERVISION.....	26
2400 - COMMUNICATING RESULTS.....	26
2410 - CRITERIA FOR COMMUNICATING	26
2420 - QUALITY OF COMMUNICATIONS	27
2421 - ERRORS AND OMISSIONS	27
2430 - USE OF “CONDUCTED IN CONFORMANCE WITH THE INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING”	28
2431 - ENGAGEMENT DISCLOSURE OF NON-CONFORMANCE	28
2440 - DISSEMINATING RESULTS	28
2450 - OVERALL OPINIONS.....	29
2500 - MONITORING PROGRESS.....	29
2600 - COMMUNICATING THE ACCEPTANCE OF RISKS.....	30
GLOSSARY	31

INTRODUCTION

Internal Audit Service was introduced in the year 2000 as a part of internal control framework to enhance good governance in the Royal Government of Bhutan.

Bhutan Government Internal Audit Standards (BGIAS) is the adapted version of the IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* and shall apply to all internal audit service providers appointed by the government. The Ministry of Finance, as a parent agency for Internal Audit Service in the Royal Government of Bhutan and mandated by Section 23 subsection (o) of the Public Finance Act 2007, shall review the relevance of the *Standards* and its implementation from time to time in keeping with the change in *Standards*.

Overview of the Standards

The '*Bhutan Government Internal Audit Standards*' consists of the following:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the Statements.

The *BGIAS* also have inserts that contextualize both Attributes and Performance Standards to the local requirements without undermining the integrity of the mandatory elements of the International Professional Practices Framework (IPPF).

Purpose of the BGIAS

The objectives of the BGIAS are to:

- Establish a framework for providing internal audit service under the Royal Government of Bhutan.
- Establish basis for evaluation of internal audit performance.

Scope

The *Bhutan Government Internal Audit Standards* will apply to all internal audit service providers under the umbrella of the Royal Government of Bhutan, whether they are sourced from within or outside the organization.

All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing. The provision of assurance services is the primary role for internal audit in Bhutan. This role requires the chief internal auditors to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the organization, with the aim of improving governance, risk management and control and contributing to the overall opinion.

As in the case of the *standards*, the BGIAS consists of Attribute and Performance Standards. The Attribute Standards address the characteristics of organizations and parties performing internal audit activities whereas the Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified as *Assurance (A)* and *Consulting (C)* activities.

The BGIAS employ terms that have been given specific meanings that are included in the Glossary.

INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)

Attribute Standards

1000 - Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing). The chief audit executive¹ must periodically review the internal audit charter and present it to senior management² and the board³ for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

1 Shall refer to the Head of CCA under Ministry of Finance.

2 Shall refer to senior management in the Ministry of Finance who is the parent agency for IA service in the Royal Government of Bhutan.

3 Shall refer to the Prime Minister of the Royal Government of Bhutan.

The Royal Government of Bhutan's requirement

The internal audit charter must also:

- Define the Central Coordinating Agency for Internal Audit Service (CCA) and outline its function corresponding to proper administration and coordination of internal audit service under the Royal Government of Bhutan.
- Define and include the role and reporting relationship between Internal Audit Units and the Anti-Corruption Commission on matters concerning fraud and corruption-related cases.
- Define and include the role and reporting relationship between CCA and the Royal Audit Authority (Supreme Audit Institution) on matters concerning partnership and collaborations between the two parties.
- Include arrangement for logistic support and financial sourcing.

Royal Government of Bhutan's interpretation

The final authority to approve the internal audit charter resides with the Government as agencies under the Government follow one internal audit charter.

Since the Central Coordinating Agency for Internal Audit Service (CCA) under the Ministry of Finance has the mandate under the Public Finance Act 2007 to issue guidelines and administer internal audit service in the Royal Government of Bhutan, the responsibility to periodically review the internal audit charter and present it to the Government for approval rest with the Chief Internal Auditor/ Head of CCA.

1000.A1 - The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

1000.C1 - The nature of consulting services must be defined in the internal audit charter.

1010 - Recognizing Mandatory Guidance in the Internal Audit Charter

The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the *Code of Ethics*, the *Standards*, and the Definition of Internal Auditing must be recognized in the internal audit charter. The chief audit executive⁴ should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board⁵.

1100 - Independence and Objectivity

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

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

1110 - Organizational Independence

The chief audit executive⁶ must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board⁷, at least annually, the organizational independence of the internal audit activity.

4 Shall refer to the Head of CCA under Ministry of Finance.

5 Senior Management and the Board' shall refer to the Planning and Policy Coordination Committee of the Ministry of Finance.

6 Shall refer to the Chief Internal Auditor at agency level.

7 Shall refer to the highest decision-making body at the agency level.

Interpretation:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- *Approving the internal audit charter.*
- *Approving the risk based internal audit plan.*
- *Approving the internal audit budget and resource plan.*
- *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters.*
- *Approving decisions regarding the appointment and removal of the chief audit executive.*
- *Approving the remuneration of the chief audit executive.*
- *Making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*

The Royal Government of Bhutan's requirement

The Chief Internal Auditor (CIA at the agency level) must report functionally to the top decision-making body at the agency level on the organizational independence of the internal audit activity.

Royal Government of Bhutan's interpretation

The structure in Bhutan Government does not have board over and above the management and therefore CIA at the agency level must report the top-decision making body charged with the responsibility to direct and/or oversee the activities and management of the organization regarding organizational independence of the internal audit activity.

Internal Auditors including the CIA are recruited and placed by the Ministry of Finance and their remunerations are fixed in accordance with the Bhutan Civil Service Rules and Regulations.

1110.A1 - The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive⁸ must disclose such interference to the board⁹ and discuss the implications.

8 Shall refer to Chief Internal Auditor at agency level.

9 Shall refer to the top decision-making body at the agency level.

1111 - Direct Interaction with the Board

The chief audit executive¹⁰ must communicate and interact directly with the board¹¹.

1112 - Chief Audit Executive Roles Beyond Internal Auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

Interpretation:

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organizational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

1120 - Individual Objectivity

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

Interpretation:

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

1130 - Impairment to Independence or Objectivity

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

10 Shall refer to Chief Internal Auditor at agency level.

11 Shall refer to the top decision-making body at the agency level.

Interpretation:

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

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1 - Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 - Assurance engagements for functions over which the chief audit executive¹² has responsibility must be overseen by a party outside the internal audit activity.

1130.A3 - The internal audit activity may provide assurance services where it has previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

1130.C1 - Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2 - If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

12 Shall refer to Chief Internal Auditor at agency level.

The Royal Government of Bhutan's requirement

- Prior approval must be sought from the management for any significant additional consulting services not already included in the audit plan before accepting the request.
- Internal Auditors are also required to perform any other official tasks (non-audit) assigned by the supervisor according to Terms of Reference of the Royal Civil Service Commission. In such circumstances, IA will not be functioning as internal auditors and accordingly not require to comply with the Standards.

Royal Government of Bhutan's interpretation

Agencies under the Royal Government of Bhutan have no board and therefore, the CIA at the agency level must communicate directly with the highest decision making body of the agency.

1200 - Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 - Proficiency

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

The Royal Government of Bhutan's requirement

- As parent agency, CIA/Head of Central Coordinating Agency for IA Service is responsible to equip all internal auditors in the Royal Government of Bhutan with appropriate knowledge, skills and other competencies needed to perform their professional responsibilities. Initiatives to obtain appropriate professional competencies at the agency level must be done in consultation with CCA.

Interpretation:

Proficiency is a collective term that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. It encompasses consideration of current activities, trends, and emerging issues, to enable relevant advice and recommendations. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

1210.A1 - The chief audit executive¹³ must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2 - Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3 - Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1 - The chief audit executive¹⁴ must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 - Due Professional Care

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

1220.A1- Internal auditors must exercise due professional care by considering the:

13 Shall refer to Chief Internal Auditor at agency level.

14 Shall refer to Chief Internal Auditor at agency level.

- Extent of work needed to achieve the engagement's objectives.
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- Adequacy and effectiveness of governance, risk management, and control processes.
- Probability of significant errors, fraud, or non-compliance.
- Cost of assurance in relation to potential benefits.

1220.A2 - In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3 - Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1 - Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results.
- Relative complexity and extent of work needed to achieve the engagement's objectives.
- Cost of the consulting engagement in relation to potential benefits.

1230 - Continuing Professional Development

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

1300 - Quality Assurance and Improvement Programme

The chief audit executive¹⁵ must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

15 Shall refer to the Head of the CCA under Ministry of Finance.

Interpretation:

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The chief audit executive should encourage board oversight in the quality assurance and improvement program.

1310 - Requirements of the Quality Assurance and Improvement Programme

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

1311 - Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

Interpretation:

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

Periodic assessments are conducted to evaluate conformance with the Code of Ethics and the Standards. Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 - External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive¹⁶ must discuss with the board¹⁷:

16 Shall refer to the Head of CCA under Ministry of Finance.

17 Shall refer to the Planning and Policy Coordination Committee – the highest policy decision making body within the Ministry of Finance.

- The form and frequency of external assessment.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments can be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.

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

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

The Royal Government of Bhutan's requirement

As a coordinating agency for Internal Audit Service under the Royal Government of Bhutan, the Central Coordinating Agency under Ministry of Finance must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Along with conducting internal assessment for internal audit units under the Royal Government of Bhutan, CCA must also make arrangements to have external assessment conducted in IAUs every five years by a qualified and independent assessor/team from outside the organization. The CIA of CCA must discuss with the top management of the line agency on scope, form, frequency of the assessment and also qualification and independence of the external assessor including possible conflict of interest.

1320 - Reporting on the Quality Assurance and Improvement Program

The chief audit executive¹⁸ must communicate the results of the quality assurance and improvement program to senior management¹⁹ and the board²⁰. Disclosure should include:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

Interpretation:

The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments, and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

The Royal Government of Bhutan's requirement

While CCA must communicate the results of the individual quality assurance and improvement program (both external and internal) to top decision-making body at the agency level, it must also communicate consolidated QAIP report to Ministry of Finance.

1321 - Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”

Indicating that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* is appropriate only if supported by the results of the quality assurance and improvement program.

18 Shall refer to the Head of CCA under Ministry of Finance.
19 Shall refer to top decision-making body at the agency level.
20 Not applicable.

Interpretation:

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

The Royal Government of Bhutan's requirement

The chief internal auditor may state that the internal audit activity conforms with the Bhutan Government Internal Audit Standards only if the results of the quality assurance and improvement program support this statement.

1322 - Disclosure of Nonconformance

When nonconformance with the Code of Ethics or the Standards impacts the overall scope or operation of the internal audit activity, the chief audit executive²¹ must disclose the non-conformance and the impact to senior management²² and the board²³.

The Royal Government of Bhutan's requirement

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts the overall scope or operation of the internal audit activity, the CIA, CCA must disclose the non-conformance and the impact to the top decision-making body at the agency level and Ministry of Finance (Parent agency)

21 Shall refer to Head of CCA under Ministry of Finance.

22 Shall refer to top-decision-making body at the agency level.

23 Shall refer to Ministry of Finance.

PERFORMANCE STANDARDS

2000 - Managing the Internal Audit Activity

The chief audit executive²⁴ must effectively manage the internal audit activity to ensure it adds value to the organization.

Interpretation:

The internal audit activity is effectively managed when:

- *It achieves the purpose and responsibility included in the internal audit charter.*
- *It conforms with the Standards.*
- *Its individual members conform with the Code of Ethics and the Standards.*
- *It considers trends and emerging issues that could impact the organization.*

The internal audit activity adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.

2010 - Planning

The chief audit executive²⁵ must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

Interpretation:

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

24 Shall refer to Chief Internal Auditor at agency level.

25 Shall refer to Chief Internal Auditor at the agency level.

Royal Government of Bhutan's interpretation

In absence of risk management system, the CIA uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board²⁶ must be considered in this process.

2010.A2 – The chief audit executive²⁷ must identify and consider the expectations of senior management, the board²⁸, and other stakeholders for internal audit opinions and other conclusions.

2010.C1 – The chief audit executive²⁹ should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

2020 - Communication and Approval

The chief audit executive³⁰ must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 - Resource Management

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

26 Shall refer to the Head of the Agency.

27 Shall refer to Chief Internal Auditor at agency level.

28 Shall refer to the Head of the Agency.

29 Shall refer to Chief Internal Auditor at agency level.

30 Shall refer to Chief Internal Auditor at agency level.

Interpretation:

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

2040 - Policies and Procedures

The chief audit executive³¹ must establish policies and procedures to guide the internal audit activity.

Interpretation:

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

2050 - Coordination and Reliance

The chief audit executive³² should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

Interpretation:

In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should consider the competency, objectivity, and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

2060 - Reporting to Senior Management and the Board

The chief audit executive³³ must report periodically to senior management and the board³⁴ on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on

31 Shall refer to Chief Internal Auditor at agency level.

32 Shall refer to Chief Internal Auditor at the agency level.

33 Shall refer to Chief Internal Auditor at the agency level.

34 Shall refer to top decision-making body.

its conformance with the Code of Ethics and the *Standards*. Reporting must also include significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board.

Interpretation:

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management, and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- *The audit charter.*
- *Independence of the internal audit activity.*
- *The audit plan and progress against the plan.*
- *Resource requirements.*
- *Results of audit activities*
- *Conformance with the Code of Ethics and the Standards, and action plans to address any significant conformance issues.*
- *Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organization*

These and other chief audit executive communication requirements are referenced throughout the *Standards*.

2070 - External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

Interpretation

This responsibility is demonstrated through the quality assurance and improvement program which assesses conformance with the Code of Ethics and the Standards.

2100 - Nature of Work

The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

2110 - Governance

The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for:

- Making strategic and operational decisions.
- Overseeing risk management and control.
- Promoting appropriate ethics and values within the organization.
- Ensuring effective organizational performance management and accountability.
- Communicating risk and control information to appropriate areas of the organization.
- Coordinating the activities of, and communicating information among the board, external and internal auditors, other assurance providers, and management.

2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.

2120 - Risk Management

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

Interpretation:

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

- *Organizational objectives support and align with the organization's mission.*
- *Significant risks are identified and assessed.*
- *Appropriate risk responses are selected that align risks with the organization's risk*

appetite.

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

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization's risk management processes and their effectiveness.

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

The Royal Government of Bhutan's requirement

Because there is no separate structure to manage risk in the government, internal auditors must not only contribute to risk management process but also help manage risk in the organization without assuming management responsibilities.

2120.A1 - The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures and contracts.

2120.A2 - The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

2120.C1 - During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120.C2 - Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes.

2120.C3 - When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 - Control

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

2130.A1 - The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations and information systems regarding the:

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures and contracts.

2130.C1 - Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization's control processes.

2200 - Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. The plan must consider the organization's strategies, objectives, and risks relevant to the engagement.

2201 - Planning Considerations

In planning the engagement, internal auditors must consider:

- The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity's objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model.
- The opportunities for making significant improvements to the activity's governance, risk management, and control processes.

2201.A1 - When planning an engagement for parties outside the organization, internal

auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1 - Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

2210 - Engagement Objectives

Objectives must be established for each engagement.

2210.A1 - Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2 - Internal auditors must consider the probability of significant errors, fraud, non compliance, and other exposures when developing the engagement objectives.

2210.A3 - Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

Interpretation:

Types of criteria may include:

- *Internal (e.g., policies and procedures of the organization).*
- *External (e.g., laws and regulations imposed by statutory bodies).*
- *Leading practices (e.g., industry and professional guidance).*

2210.C1 - Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

2210.C2 - Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.

2220 - Engagement Scope

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

2220.A1 - The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220.A2 - If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1 - In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2 - During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

2230 - Engagement Resource Allocation

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

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. Sufficient refers to the quantity of resources needed to accomplish the engagement with due professional care.

The Royal Government of Bhutan's requirement

Internal Audit Units in line agencies must propose for an adequate budget based on their annual audit work plan in a separate budget line within the organization during the annual budget formulation.

2240 - Engagement Work Programme

Internal auditors must develop and document work programs that achieve the engagement objectives.

2240.A1 - Work programs must include the procedures for identifying, analyzing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation, and any adjustments approved promptly.

2240.C1 - Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 - Performing the Engagement

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

2310 - Identifying Information

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

Interpretation:

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

2320 - Analysis and Evaluation

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

2330 - Documenting Information

Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.

2330.A1 - The chief audit executive³⁵ must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2 - The chief audit executive³⁶ must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2330.C1 - The chief audit executive³⁷ must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2340 - Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive³⁸ has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

2400 - Communicating Results

Internal auditors must communicate the results of engagements.

2410 - Criteria for Communicating

Communications must include the engagement's objectives, scope and results.

35 Shall refer to Chief Internal Auditor at agency level.
36 Shall refer to Chief Internal Auditor at agency level.
37 Shall refer to Chief Internal Auditor at agency level.
38 Shall refer to Chief Internal Auditor at agency level.

2410.A1 - Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of the senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

2410.A2 - Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3 - When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

2410.C1 - Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 - Quality of Communications

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

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

2421 - Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive³⁹ must communicate corrected information to all parties who received the original communication.

2430 - Use of “Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*”

Indicating that engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*⁴⁰” is appropriate only if supported by the results of the quality assurance and improvement program.

The Royal Government of Bhutan’s requirement

Internal auditors may report that their engagements are “conducted in conformance with the BGIAS” only if the results of the quality assurance and improvement programme support the statement.

2431 - Engagement Disclosure of Nonconformance

When nonconformance with the Code of Ethics or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle(s) or rule(s) of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved.
- Reason(s) for nonconformance.
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 - Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive⁴¹ is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the

39 Shall refer to Chief Internal Auditor at agency level.

40 Shall mean Bhutan Government Internal Audit Standards.

41 Shall refer to Chief Internal Auditor at agency level.

chief audit executive delegates these duties, he or she retains overall responsibility.

2440.A1 - The chief audit executive⁴² is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 - If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization.
- Consult with senior management and/ or legal counsel as appropriate.
- Control dissemination by restricting the use of the results.

2440.C1 - The chief audit executive⁴³ is responsible for communicating the final results of consulting engagements to clients.

2440.C2 - During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board⁴⁴.

2450 - Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

The communication will include:

- *The scope, including the time period to which the opinion pertains.*
- *Scope limitations.*
- *Consideration of all related projects, including the reliance on other assurance providers.*
- *A summary of the information that supports the opinion.*
- *The risk or control framework or other criteria used as a basis for the overall opinion.*
- *The overall opinion, judgment, or conclusion reached.*

The reasons for an unfavorable overall opinion must be stated.

42 Shall refer to Chief Internal Auditor at agency level.

43 Shall refer to Chief Internal Auditor at agency level.

44 Shall refer to top decision-making body in the agency.

2500 - Monitoring Progress

The chief audit executive⁴⁵ must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1 - The chief audit executive⁴⁶ must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1 - The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 - Communicating the Acceptance of Risks

When the chief audit executive concludes that management⁴⁷ has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management⁴⁸. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Interpretation:

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

The Royal Government of Bhutan's requirement

Since there is no board in the government agencies, if the Chief Internal Auditor determines that the matter with respect to unacceptable risk has not been resolved, the Chief Internal Auditor must communicate the matter to the Central Coordinating Agency for onward communication to the Cabinet of Secretaries or Cabinet of Ministers whichever is appropriate.

45 Shall refer to Chief Internal Auditor at agency level.

46 Shall refer to Chief Internal Auditor at agency level.

47 Shall refer to the management at the department/division/sector level.

48 Shall refer to the top decision-making body at the agency level.

GLOSSARY

Add Value

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

Adequate Control

Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Board

The highest level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the Standards refers to a group or person charged with governance of the organization. Furthermore, "board" in the Standards may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Chief Audit Executive

Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and

qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organizations.

Code of Ethics

The *Code of Ethics* of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behavior expected of internal auditors. The *Code of Ethics* applies to both parties and entities that provide internal audit services. The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organizational structure.

- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

Core Principles for the Professional Practice of Internal Auditing

The Core Principles for the Professional Practice of Internal Auditing are the foundation for the International Professional Practices Framework and support internal audit effectiveness.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Opinion

The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Engagement Work Program

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider

A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

Fraud

Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Impairment

Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people.

Information Technology Governance

Consists of the leadership, organizational structures, and processes that ensure that the enterprise's information technology supports the organization's strategies and objectives.

Internal Audit Activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

International Professional Practices Framework

The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative guidance is composed of two categories - (1) mandatory and (2) recommended.

Must

The *Standards* use the word "must" to specify an unconditional requirement.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity

requires that internal auditors do not subordinate their judgment on audit matters to others.

Overall Opinion

The rating, conclusion, and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management, and/or control processes of the organization. An overall opinion is the professional judgment of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Appetite

The level of risk that an organization is willing to accept.

Risk Management

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

Should

The *Standards* use the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Standard

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.

Technology-based Audit Techniques

Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer-assisted audit techniques (CAATs).