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# **Quality Assurance and Improvement Programme Guideline for Internal Audit Services of RGoB**

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**Ministry of Finance  
December 2019**



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ROYAL GOVERNMENT OF BHUTAN  
MINISTRY OF FINANCE  
TASHICHHO DZONG

17<sup>th</sup> March 2020

**Foreword**

The Quality Assurance and Improvement Program (QAIP) Guideline for Internal Audit Service, Royal Government of Bhutan (RGoB) is issued by the Central Coordinating Agency for Internal Audit Service, Ministry of Finance, to advance and maintain a professional quality Internal Audit Service. It covers all aspects of the internal audit activity to enhance its credibility with stakeholders. The Guideline has been developed with the technical assistance from E&Y LLP consultant financed through Multi Donor Grant Funds - "Public Financial Management Multi Donor Fund (PFM-MDF) administered by World Bank.

QAIP is a tool to assess and improve the performance of Internal Audit Services. In the absence of such a tool, effectiveness of Internal Audit Service and gaining the stakeholders' credibility were the major challenges. Thus, a comprehensive QAIP Guideline that comprises of conducting internal assessment for Internal Audit Units under the RGoB including ongoing monitoring of performance, periodic internal assessments, along with external assessment conducted in Internal Audit Units every five years by a qualified and independent assessor from outside the organization has been developed and issued.

The QAIP guideline is developed based on Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF). It consists of various components of QAIP such as Internal Assessment, External Assessment, Performance Monitoring of Internal Auditors, and how to apply these components without compromising conformance with the Internal Auditing Standards.

This guideline will serve as an important tool to improve the quality and effectiveness of Internal Audit Service in the Royal Government of Bhutan.

Tashi Delek!

A handwritten signature in blue ink, appearing to read 'Nim Dorji', with a long horizontal line extending from the end of the signature.

Nim Dorji  
Finance Secretary



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# Preface

The RGoB has recognised the strengthening of quality assurance system of the public sector internal audit activity as a priority area. It also specified development of quality assurance guidelines as a part of “Strengthening the Effectiveness and Capacity of Internal Audit in the Royal Government of Bhutan”. The project is supported by Multi Donor Grant Funds - “Public Financial Management Multi Donor Fund (PFM-MDF) and administered by World Bank.

A critical asset for an internal audit activity is its credibility with stakeholders. As a coordinating agency for Internal Audit Service under the RGoB, 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. Chief Internal Auditor of CCA needs assurance that their internal audit activity and each internal auditor conforms to all mandatory elements of the IIA’s International Professional Practices Framework (IPPF), and they need to demonstrate this conformance to their stakeholders.

The only way to meet these expectations is with a comprehensive QAIP that comprises of conducting internal assessment for internal audit units under the RGoB including ongoing monitoring of performance, periodic internal assessments, along with external assessment conducted in IAUs every five years by a qualified and independent assessor/team from outside the organization.

The QAIP guideline is developed based on IIA’s International Professional Practices Framework (IPPF). It explains various components of QAIP such as Internal Assessment, External Assessment, Performance Monitoring of Internal Auditors, etc and how to apply these components without compromising conformance with the Standards. Particularly, it presents and discusses the 1300 series of the Standards that deal specifically with quality assurance.

Chapter 1	Contains background of Internal Audit in RGoB , requirements and characteristics of QAIP
Chapter 2	Contains consideration for developing QAIP including responsibility of QAIP , QAIP framework, standards on QAIP and its components
Chapter 3	Contains requirement of internal assessment including ongoing monitoring and periodic self-assessment
Chapter 4	Contains requirement of external assessment in QAIP including full external assessment and self assessment with independent validation
Chapter 5	Contains reporting and follow-up requirement of QAIP
Chapter 6	Contains measurement of the Internal Audit effectiveness and efficiency including Internal Audit Capability Model
Chapter 7	Contains various templates, checklists and guidance for effective implementation of QAIP

The guideline comprises 7 chapters which set out the entire requirement of implementing the effective Quality Assurance and Improvement Programme. It includes templates, a set of forms, practical examples and checklists. The structure of the Quality Assurance and Improvement Programme guideline is as follows: -

This guideline will fulfil the objectives and demonstrates the commitment of RGoB to improve the Internal Audit services in the country. The RGoB hopes that users will find it valuable for establishing and / or improving the quality assurance and improvement programme for internal auditing in the public sector.

This guideline will bring out a uniform procedure for quality assurance in the Internal Audit which will help in achieving the objectives of Internal Audit. Users of this guideline are expected to have a comprehensive understanding of the International standards on Internal Audit and guidelines, policies & procedures, regulations and rules as issued by the Internal Audit Services of RGoB.

The guideline is designed to be flexible and unrestrictive. The Internal Auditors are encouraged to exercise professional judgment where they face any difficulty in understanding or complying with the guideline, and then seek appropriate clarifications or assistance from CCA.

The Central Coordinating Agency for Internal Audit Services is expected to keep updating this guideline regularly and incorporate any suggestions or modify the contents of the guideline as and when required.

# Abbreviations

Abbreviations	Full Form
ACC	Anti-Corruption Commission
AMS	Audit Management System
AuditCom	Audit Committee
BGIAS	Bhutan Government Internal Audit Standard
CAAT	Computer Assisted Audit Techniques
CCA	Central Coordinating Agency
CGA	Controller General of India
CIA	Chief Internal Auditor
COA	Commission on Audit
CPE	Continuing Professional Education
CSA	Control Self-Assessment
DBM	Department of Budget and Management
DNC	Does not Conform
DS	Department Secretary
EU	European Union
GAIT	Guides to the Assessment of IT Risk
GB	Governing Board
GC	Generally Conforms
GG	Good Governance
GTAG	Global Technology Audit Guides
HoA	Head of Agency
HoIA	Head of Internal Audit
IA	Internal Audit / Internal Auditor
IA-CM	Internal Audit Capability Model
IAS	Internal Audit Service
IAU	Internal Audit Unit
IAW	Internal Audit Wing
IIA	Institute of Internal Auditor
IPPF	International Professional Practices Framework
ISPPIA	International Standards for the Professional Practice of Internal Auditing
IT	Information Technology
KPI	Key Performance Indicator
MoF	Ministry of Finance
NICF	National Internal Control Framework
PC	Partially Conforms
QAIP	Quality Assurance and Improvement Programme
RAA	Royal Audit Authority
RGoB	Royal Government of Bhutan



**1**

**About the  
guideline**

# Chapter 1: About the guideline

## 1.1 Background

The Internal Audit Service was first instituted in the Royal Government of Bhutan with seventeen internal auditors spread across seven ministries in the year 2000 ensuing the Good Governance initiatives undertaken by the Government. The IA service was further reinforced and the 86<sup>th</sup> session of National Assembly, June 2007, passed a resolution to have internal auditors in all Dzongkhags. The Public Finance Act came into force in the year 2007. With the enactment of the Public Finance Act 2007, the responsibility of administering the Internal Audit service was vested to the Ministry of Finance. Accordingly, MoF established the Central Coordinating Agency (CCA) in the year 2010.

The Ministry of Finance in keeping with the principle of transparency, accountability, efficiency and professionalism enunciated in the GG Plus (2005), published the National Internal Control Framework (NICF) in December 2013. As part of paradigm shift in the internal audit approach based on the NICF document, theme-based audit approach was also initiated from the fiscal year 2015-16. In order to ensure that the internal audit services are provided in a professional manner and in accordance with best international practices, the Ministry of Finance adopted the International Professional Practices Framework (IPPF), issued by the Institute of Internal Auditors to regulate the work of the IAS. Accordingly, they issued Internal Audit guidelines and Standards in line with the IPPF framework.

The expansion of scope and reach of internal auditing requires that Internal Auditors demonstrate high level of credibility to the stakeholders. The Chief Internal Auditor (CIA) needs assurance that their internal audit activity and each member of their staff conforms to all mandatory elements of the IPPF, and they need to demonstrate this conformance to their stakeholders. Further, the IPPF was recently updated in the year 2017 and it states that evaluating risk management and governance processes is much more challenging and meaningful than control alone. It requires internal audit to operate at a higher, more strategic level. To operate at this level, internal auditors need a higher level of credibility with their stakeholders.

The requirements and characteristics of quality in an internal audit activity are defined by the IPPF, which includes mandatory and recommended guidance, all provided within the context of the Mission of Internal Audit as defined in the IPPF. Further, the Internal Auditing Standards and the Manual of RGoB require the implementation of a Quality Assurance and Improvement Programme (QAIP) to ensure conformance with the Definition of Internal Audit, the Code of Ethics for Internal Auditors and the Auditing Standards. The only way to meet these is with a comprehensive quality assurance and improvement programme (QAIP) that includes ongoing monitoring of performance, periodic internal assessments, external assessments conducted by a qualified, independent assessor or assessment team from outside the organization, and communication of the results.

## 1.2 Quality in Internal Audit

Quality in internal audit is guided by both an obligation to meet stakeholder expectations as well as professional responsibilities inherent in conforming to the Standards. Quality in internal audit begins with the structure and organization of the audit activity. The QAIP should measure whether internal audit is meeting its own objectives, as well as those of the broader organization.

Internal Auditing Standards 1300 through 1312 on Internal Audit issued by IIA specifically require the Chief Internal Auditor to develop a QAIP, incorporating both internal (self) assessments and external assessments. However, beyond these specific standards, internal audit as a profession should maintain a formal and structured approach to quality. This includes operating with proficiency and due professional care, undertaking continuing professional development, and conforming to a set of recognized standards.

Under the QAIP, an internal audit activity need not assess whether each individual engagement conforms to the Standards or not. Rather, engagements should be undertaken in accordance with an established methodology that promotes quality and, by default, conformance with the Standards.

Building an effective QAIP is similar to establishing a total quality management programme where products and services are analyzed to verify that they meet stakeholder expectations, operations are evaluated to determine their efficiency and effectiveness, and practices are assessed to confirm their conformance to the standards. Maintaining an effective QAIP also requires leaders who are responsible for setting the proper tone in support of quality and continuous improvement.

The internal audit activity should consider all mandatory and recommended guidance elements of the IPPF to ensure that:

- ▶ It is understood that through conformance with the Standards and the Code of Ethics, the internal audit activity also achieves alignment with other mandatory elements of the IPPF.
- ▶ Stakeholder satisfaction defined by expected and preferred internal audit deliverables that produce value for the organization.
- ▶ Operational effectiveness achieved by building quality “into” internal audit processes. Preventing mistakes is generally less costly than correcting mistakes.
- ▶ Continuous improvement of internal audit activities accomplished through quality initiatives identified during the quality assessment process.
- ▶ Management commitment to provide resources and tools necessary for a QAIP to succeed. Participation is expected by all members of the internal audit activity.

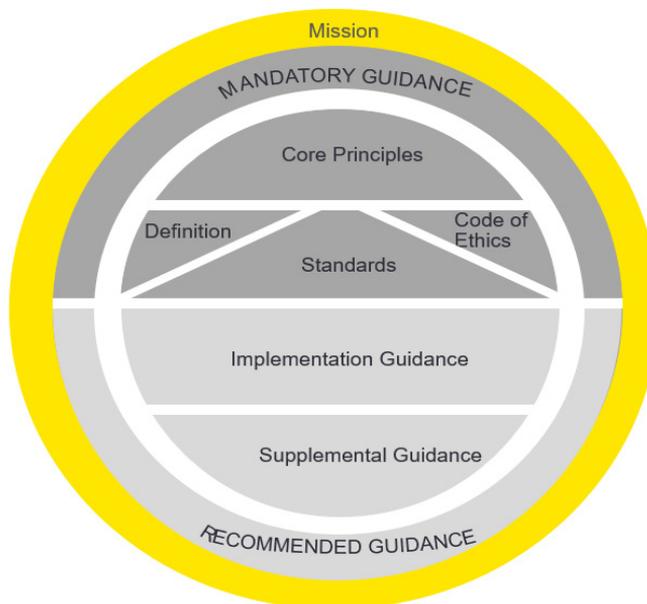
### Key Tips:

For the internal audit profession, it is important to ensure that internal audit activities maintain the highest possible standards of service delivery to the organizations they support. The IIA established the IPPF to guide the internal audit profession, and the mandatory elements of the IPPF—supported by recommended guidance—are the foundation for developing an internal audit activity’s QAIP.

### 1.3 Requirements and Characteristics of QAIP

The requirements and characteristics of quality in an internal audit activity are defined by the IPPF, which consists of mandatory and recommended guidance, all provided within the context of the Mission of Internal Audit as defined in the IPPF. The Ministry of Finance has developed and issued Bhutan Government Internal Audit Standards contextualizing both Attributes and Performance Standards to the local requirements without undermining the integrity of the mandatory elements of the International Professional Practices Framework (IPPF).

**Figure 1:** IIA, International Professional Practices Framework



#### 1.3.1 Mandatory Guidance

Mandatory guidance is considered essential for the professional practice of internal auditing. It consists of four elements:

- ▶ **Core Principles:** The Core Principles for the Professional Practice of Internal Auditing are the foundation of the IPPF and support internal audit effectiveness.
- ▶ **Definition of Internal Auditing:** The Internal Audit in Bhutan adopted the definition of Internal Audit as issued by IIA and accordingly developed their guidelines and policies. *“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”*
- ▶ **Code of Ethics:** The Principles and Rules of Conduct of the Code of Ethics define ethical behavior for a professional internal auditor. The Internal Audit Charter and Internal Audit Code of Ethics issued by the Ministry of Finance are in line with the IPPF framework.

- ▶ **Standards:** The Standards are the central criteria that define the attributes and characteristics of performance for an internal audit activity, including the requirements for a QAIP. The Ministry of Finance has issued Bhutan Government Internal Audit Standards contextualizing both Attributes and Performance Standards to the local requirements without undermining the integrity of the mandatory elements of the International Professional Practices Framework (IPPF). 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.

### 1.3.2 Recommended Guidance

Recommended guidance describes practices for the effective implementation of the Core Principles, the Definition of Internal Audit, the Code of Ethics, and the Standards. It helps internal auditors to understand and apply the Standards, may provide insights into going beyond conformance to a higher level of value addition or may help in addressing issues of concern not related to a specific standard. It consists of two elements:

- ▶ **Implementation Guidance:** Implementation Guides exist for each standard. They are intended to provide guidance to internal audit practitioners with regard to conformance with the Standards.
- ▶ **Supplemental Guidance:** Supplemental guidance provides detailed guidance for conducting internal audit activities. Supplemental guidance includes topical areas, sector-specific issues, as well as processes and procedures, tools and techniques, programs, step-by-step approaches, and examples of deliverables. Examples of supplemental guidance currently include Practice Guides, Global Technology Audit Guides (GTAGs), and Guides to the Assessment of IT Risk (GAIT).



# 2

## Establishment of Quality Assurance and Improvement Programme

## Chapter 2: Establishment of Quality Assurance and Improvement Programme

### ISPPIA 1300 - Quality Assurance and Improvement Programme

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

#### 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 programme.

### ISPPIA 1310 - Requirements of the Quality Assurance and Improvement Programme

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

The QAIP should encompass all aspects of operating and managing the internal audit activity—including consulting engagements—as found in the mandatory elements of the IPPF. Through conformance with the Standards and the Code of Ethics, the internal audit activity also achieves alignment with the Definition of Internal Audit and the Core Principles.

The CIA must develop and maintain QAIP that covers all aspects of the internal audit activity.

Elements of QAIP includes:

- ▶ A **scope** that includes all aspect of the IA activity,
- ▶ An **evaluation of conformance** with Standards & Code of Ethics,
- ▶ An **assessment** of the efficiency and effectiveness of Internal Audit activity,
- ▶ The **identification of opportunities** for continuous improvement.
- ▶ Involvement by the **senior management** (in case of Bhutan - Secretary of Finance) in oversight of QAIP.

### 2.1 Considerations in Developing a QAIP

There are numerous ways to develop a QAIP, and the design should be appropriate to the size, structure, and nature of the internal audit activity. A key aspect to developing a QAIP is to determine:

- ▶ The role of internal audit management and staff in the quality process.
- ▶ The activities that are covered through ongoing monitoring, periodic self-assessment, or external assessments.
- ▶ The frequency of self-assessments and external assessments.
- ▶ The level of quality, or maturity, desired by the internal audit activity and expected by its stakeholders.



## 2.2 Responsibility of QAIP

According to auditing standards, the CIA is responsible for developing and maintaining a quality assurance improvement programme (QAIP) so as to provide reasonable assurance to the stakeholders that the internal audit activity:

- ▶ Performs in accordance with the Internal Audit Charter, which is consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- ▶ Operates in an effective and efficient manner.
- ▶ Is perceived by the stakeholders as adding value and improving the organization's operations.

Internal auditors, as professionals, should be committed to delivering quality services. Allocating specific responsibilities for developing, delivering, and monitoring the QAIP will vary for each internal audit activity. Regardless, these accountabilities should be articulated in audit planning documentation to allow for the allocation of appropriate resources, as well as within the documented QAIP. Responsibility for specific QAIP activities should take into account the qualifications and experience of staff. It is important that all staff members are fully acquainted with the QAIP, and that specific staff members responsible for activities, such as periodic self-assessments, have appropriate credibility and authority within the internal audit activity.

## 2.3 Objective of the QAIP

The objective of the QAIP is to assess the internal audit activity, identify weaknesses and opportunities and make recommendations for the improvement of its effectiveness and efficiency. The assessments are focused on determining the internal audit activities:

It enables an evaluation of:

- ▶ Conformance with the Definition of Internal Auditing, the Code of Ethics, and Standards.
- ▶ Adequacy of the charter, goals, objectives, policies, and procedures.
- ▶ Integration into the governance, risk management and control environment of the entity.
- ▶ Compliance with applicable laws, regulations, and government or industry standards.
- ▶ Contribution to the organization's governance, risk management, and control processes.
- ▶ Meeting the expectations of the Chief Executive, senior management and other stakeholders, particularly in adding value and improving the organizations operations.
- ▶ Efficiency and effectiveness in performing its mandate and has processes to facilitate continuous improvement, including adoption of best practices.
- ▶ Effectiveness in staff development and the adoption of new audit methodologies and techniques.

## 2.4 QAIP Framework

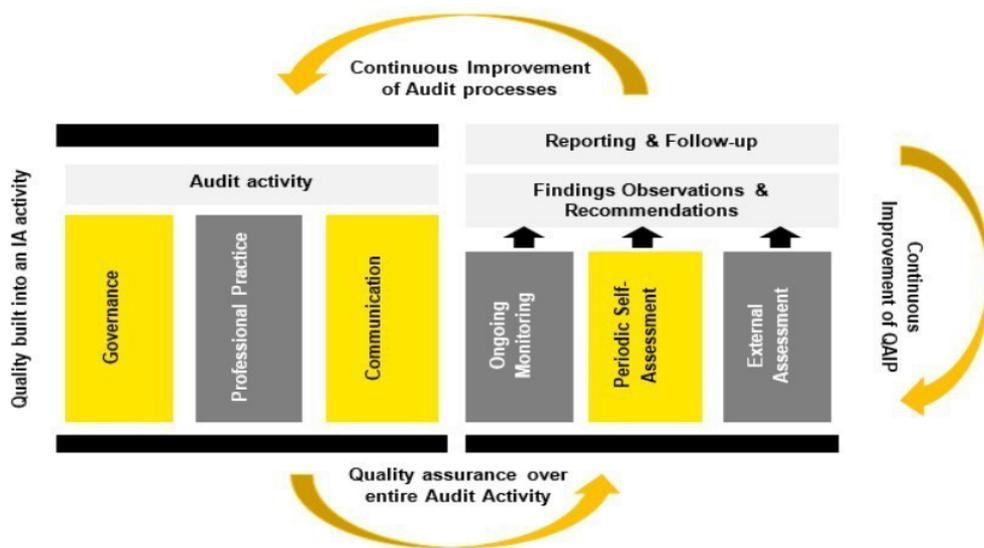
The framework for embedding quality assurance and continuous improvement into an internal audit activity considers three separate activities or sections within an internal audit activity: governance, professional practice, and communication. These activities are discussed further in **Appendix 1: QAIP Components**.

The QAIP framework assumes that quality is built in to (and not on to) the structure of the internal audit activity and that quality assessments are undertaken over the entire activity. As per the Standards, quality assessments take the form of ongoing monitoring, periodic self-assessment, and external assessment.

In order to assess that the internal audit activity has quality assurance and continuous improvement program embedded into the system, the QAIP Framework should cover at least the mandatory common elements, which are:

- ▶ Coverage of the entire audit universe;
- ▶ Evaluation of conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards;
- ▶ Assessment of the efficiency and effectiveness of the internal audit activity; and
- ▶ Identifying opportunities for improvement and involving senior management in oversight of QAIP.

**Figure 2: Quality Assurance and Continuous Improvement Program (QAIP) Framework**



## 2.5 Some International Best Practices on QAIP

A quality assurance and improvement programme supports the conduct of internal audits that effectively and consistently result in value-addition to the internal audit functions. Some of the international best practices on QAIP followed by other countries

### 2.5.1 India: Public Sector Internal Audit function in Central Civil Ministries / Departments

The quality assurance function followed in in Central Civil Ministries / Departments is summarized below:

S. No.	Control Element	Control Objective	Source	Assurance Level
1	Professionalism (Due Care)	Individual Auditor's Work	Individual	Individual Auditor
2	Supervisory Review	Engagement	Supervisor within Line of responsibility	Audit Function Management
3	Internal Review	Aggregate of Engagements or divisional Offices or Autonomous Audit Units	Supervisor/Peer Outside Line of Responsibility	Chief Audit Executive
4	External Review	Audit Function as a whole	Qualified persons from Outside the Ministry/Department	Audit Committee

The primary quality assurance activities in public sector Internal Audit function in India includes training workshops and seminars, feedback from users of audit services, peer review and external reviews. The main objective of self-assessment, peer review and external reviews is to improve audit quality as a whole. While self-assessment is the responsibility of the Chief Audit Executive, peer reviews is conducted by members of IAWs of Ministries/ Departments. External reviews are done by O/o CGA or outsourced reviewers from the IIA and comprise an examination of the audit plan, working papers, related audit report and follow-up activities and may be performed either prior to reports being finalized or at any time after they have been finalized. The deficiencies noted are rectified timely manner.

### 2.5.2 Philippines: Public Sector Internal Audit function

The Philippines government internal audit function has Internal chapter on Internal Audit Performance Monitoring and Evaluation as a part of their internal audit manual which covers the quality assurance mechanisms in public sector internal audit function. The public sector IA function of Philippines government is periodically assessed for performance and addressing opportunities for improvement which can help maximize the efficiency and effectiveness of the internal audit function. Following is the key activities of Philippines government IA function under Internal Audit Performance Monitoring and Evaluation:

- ▶ The DS/HoA or GB/AuditCom is responsible for periodically reviewing the performance of the internal audit. They also approve the performance indicators used for Internal Audit Performance Monitoring and Evaluation.
- ▶ **Performance Monitoring by the Head of Internal Audit:** The Head of IA have the responsibility over the performance and discipline of the IA staff. Head of IA directs the conduct of audit progress assessment based on a monitoring plan utilizing KPIs and conduct two types of performance monitoring, as follows:
  - **Review of Progress Assessment Report:** It focuses on whether or not, Audit objectives are met, Findings and recommendations are based on facts

and substantial evidence, auditing standards are followed properly, Findings and recommendations promote the adequacy of internal control pursuant to applicable rules and regulations and High standards of ethics and efficiency of public officials and employees are observed pursuant to applicable rules and regulations. The Report is subject to the approval of the HoIA and audit team leaders ensures that audit engagements are assessed at the stage before exit conference.

- **Review of Completion Assessment Report:** It focuses on the Overall effectiveness and efficiency of the IAS/IAU in accordance with applicable rules and regulations, Findings and recommendations should be based on facts and substantial evidence, application of auditing standards, Findings and recommendations promote the adequacy of internal control pursuant to applicable rules and regulations and High standards of ethics and efficiency of public officials and employees are observed pursuant to applicable rules and regulations. The Report is subject to the approval of the HoIA and audit team leaders ensures that audit engagements are assessed at the conclusion of the activity.
- ▶ **Performance Evaluation by the DS/HoA or GB/AuditCom:** The Secretary has the power for supervision and control of the Department. The IAS/IAU is an integral part of the Department which provides assistance to the DS/HoA or GB/AuditCom and performs functions delegated by the DS/HoA or GB/AuditCom. Work performance of the IAS/IAU is evaluated by the DS/HoA or GB/AuditCom as part of supervision and control. They monitor and evaluate the performance of the IAS/IAU either through:
  - **Review of the Internal Audit Report:** During the review of the Internal Audit Report submitted by IAU/IAS, the DS/HoA or GB/AuditCom ensures the following:
    - The internal auditing standards are adhered while performing IA engagement.
    - All audit findings are formulated based on the 4Cs (criteria, condition, conclusion, cause).
    - Findings are supported by sufficient audit evidence and the quantum of evidence required to support an audit finding is substantial evidence.
    - Its recommendations are feasible, cost-effective and cost-efficient, find sufficient basis in law, evidence-based and classified.
    - The audit risk and limitations are properly highlighted in the audit report that may affect the conduct of the audit and may expose the organization to considerable risks.
  - **Review of the IAS/IAU Performance Report:** At the close of every fiscal year, the DS/HoA or GB/AuditCom shall review the performance of the IAS/IAU through the various reports/outputs (i.e., baseline assessment report, assessment of control significance and materiality and control risk report, assessment of internal audit risk report, annual audit plan, audit engagement report, audit follow-up report and performance monitoring evaluation report) that are submitted to their office.
- ▶ **Oversight over IAS/IAU:** In addition to the performance monitoring and evaluation conducted by the HoIA and the DS/HoA or GB/AuditCom, oversight functions over the IAS/IAU are also performed by the COA and the DBM.

### **2.5.3 European Countries: Public Sector Internal Audit function**

In accordance with Discussion paper no. 3 on Public Internal Control Systems in the European Union on Quality Assurance for Internal Audit (Ref. 2014-3), most of the members countries public sector Internal Audit function bases itself on the standards for the Professional Practice of Internal Auditing (part of the IIA's International Professional Practices Framework – IPPF). In some countries, these internationally recognized standards are directly applicable in national legislation, while others have incorporated them into their national standards. Consequently, the basic IA standards referred to in this paper are these IPPF Standards. The IIA Standards on QAIP stress on the importance of quality assurance and improving IA, but which of the various approaches is actually taken depends on the level of maturity of the IA function.

In most of the countries, the Standards on Quality Assurance and Improvement issued by the Institute of Internal Auditors (IIA) is the starting point for development of QAIP framework for internal audit function. The QAIP practice followed by Internal Audit functions of Civil Ministries / Departments and most of EU countries are in line with IIA standards on QAIP. The process of monitoring and evaluation of Internal Audit functions of Philippines government is also based on the IPPF framework which requires to development of KPI by adopting appropriate indicators, implementing a rigorous performance measurement regime and acting on the results, can thus encourage acceptance of IA role within the organization. Further, the QAIP process in the above countries internal audit function is given in a chapter forming part of Internal Audit Manual issued by respective authority.

### **2.6 International Standards on QAIP**

The Ministry of Finance has developed and issued Bhutan Government Internal Audit Standards contextualizing both Attributes and Performance Standards to the local requirements without undermining the integrity of the mandatory elements of the International Professional Practices Framework (IPPF). The standards are discussed in detail in subsequent chapters. The following International Standards for the Professional Practice of Internal Auditing (Standards) are relevant to the development of a QAIP:

**Figure 3: International Standards for the Professional Practice of Internal Auditing issued by IIA**

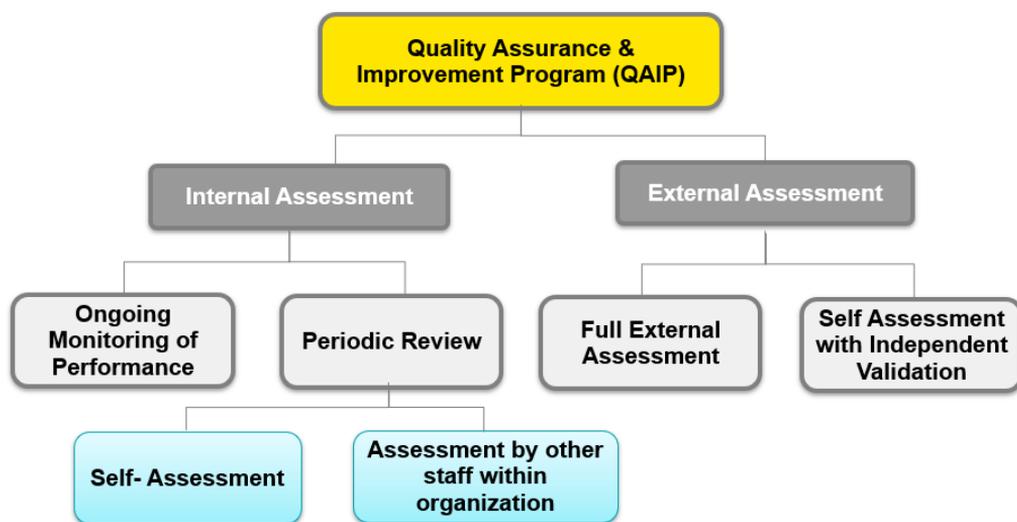
<b>1300</b>	<b>Quality Assurance and Improvement Program.</b>
<b>1310</b>	<b>Requirements of the Quality Assurance and Improvement Program</b>
<b>1311</b>	<b>Internal Assessments</b>
<b>1312</b>	<b>External Assessments</b>
<b>1320</b>	<b>Reporting on the Quality Assurance and Improvement Program</b>
<b>1321</b>	<b>Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing.”</b>
<b>1322</b>	<b>Disclosure of Non-conformance</b>

### 2.7 Components of QAIP

A comprehensive QAIP normally includes three components as follows:

- ▶ Ongoing supervision and monitoring of quality assurance by the CIA and senior auditors.
- ▶ Periodic internal assessments of the internal audit activities.
- ▶ Periodic external assessments of the internal audit activities and validation of conformance with the Standards.

**Figure 4: Component of QAIP**



To achieve comprehensive coverage of all aspects of the internal audit activity, a QAIP must effectively be applied at three fundamental levels (or perspectives):

### **2.7.1 Internal Audit Engagement Level (self-assessment at the audit, engagement, or operational level):**

The engagement supervisor (either a Senior Internal Auditor or the CIA) is responsible for providing assurance that:

- ▶ Appropriate processes have been used to translate audit plans into specific, appropriately resourced audit engagements.
- ▶ Planning, fieldwork conduct, and reporting/communicating results conform to the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- ▶ Appropriate mechanisms are established and used to follow-up management actions in response to audit recommendations.
- ▶ Post-engagement client surveys, lessons learned, self-assessments, and other mechanisms to support continuous improvement are completed.

### **2.7.2 Internal Audit Activity Level (self-assessment at the internal audit activity or organizational level):**

The CIA is responsible for providing assurance that:

- ▶ Written policies and procedures, covering both technical and administrative matters, are formally documented to guide audit staff in consistent conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- ▶ Audit work conforms to written policies and procedures.
- ▶ Audit work achieves the general purposes and responsibilities described in the internal audit charter.
- ▶ Audit work conforms to the Definition of Internal Auditing, the Code of Ethics, and the Standards.
- ▶ Internal audit work meets stakeholder expectation.
- ▶ The internal audit activity adds value and improves the organization's operations.
- ▶ Resources for the internal audit activity are efficiently and effectively utilized.

### **2.7.3 External Perspective (independent external assessment of the entire internal audit activity including individual engagements):**

The CIA must ensure that the internal audit activity undergoes an external assessment (either an independent external assessment or a self-assessment with independent validation), at least once every five years by an independent assessor or assessment team from outside the organization that is qualified in the practice of internal auditing as well as quality assessment process.

External assessors express an opinion on the entire spectrum of assurance and consulting work performed (or that should have been performed) by the internal audit activity, including its conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. Assessors also conclude on the efficiency and effectiveness of the internal audit activity in following its charter and meeting the expectations of stakeholders.



# 3

## Internal Assessment

## Chapter 3: Internal Assessment

### ISPPIA 1311 - Internal assessments

Internal assessments must include:

- ▶ *Ongoing monitoring of the performance of the internal audit activity; and*
- ▶ *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 by the Internal Auditors of IAUs. The Internal Auditors of IAUs should incorporate ongoing monitoring 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 self-assessments are conducted to evaluate conformance with the Code of Ethics and the Standards. The Chief Internal Auditor of IAU/CCA and senior Internal Auditor of IAUs should have sufficient knowledge of internal audit practices which requires at least an understanding of all elements of the International Professional Practices Framework to conduct an effective periodic self-assessment.

As Standard 1311 indicates, the Chief Internal Auditor is responsible for ensuring that the internal audit activity conducts an internal assessment that includes both ongoing monitoring and periodic self-assessments. Internal assessments validate that the internal audit activity continues to conform with the International Standards for the Professional Practice of Internal Auditing (Standards) and the Code of Ethics. The Chief Internal Auditor understands that the internal assessments focus on continuous improvement of the internal audit activity and involve monitoring its efficiency and effectiveness.

### 3.1 Implementation of Internal Assessment

The two parts of internal assessments, **ongoing monitoring** and **periodic self-assessments**, provide an effective structure for the internal audit activity to continuously assess its conformance with the Standards and check whether internal auditors of IAU apply the Code of Ethics or not. Additionally, the Internal Auditors of IAU may allow for identification of opportunities for improvement.

### 3.2 Benefits of Internal Assessment

Following are the key benefits of an internal assessment:

- ▶ Continuous Improvement;
- ▶ Becoming more forward-looking in approach and experiencing greater alignment with Internal Audit activity's strategies and objectives;
- ▶ Enhanced Internal Audit productivity by eliminating non-value-added activities;
- ▶ Improved Internal Audit staff morale due to the focus on process improvement;
- ▶ Greater adaptability in implementing incremental changes resulting in greater responsiveness to stakeholders' expectations.

### 3.3 Ongoing Monitoring

The most important method for continuously assessing quality is management oversight of internal audit work. Adequate monitoring from the beginning to the end of the engagements is a fundamental element of a QAIP. The objective of ongoing monitoring is to be achieved by CIA or Internal Auditors of IAUs through continuous activities such as proper engagement planning and supervision, standardized work practices, workpaper procedures and signoffs, report reviews, as well as identification of any weaknesses or areas in need of improvement and action plans to address them. Ongoing monitoring helps the Internal Auditors/Chief Internal Auditor of IAUs to determine whether internal audit processes are delivering quality on an engagement-by-engagement basis.



Ongoing monitoring provides assurance that the processes in place are working effectively to ensure quality is delivered on an audit-by-audit basis. It is primarily achieved through continuous monitoring activities. The ongoing monitoring element of the QAIP would primarily address conformance with the following Standards since they are intended to address quality on an audit-by-audit basis and relate primarily to engagement activities:

- ▶ ISPPIA 2200- Engagement Planning
- ▶ ISPPIA 2300- Performing the Engagement
- ▶ ISPPIA 2400- Communicating Results
- ▶ ISPPIA 2500- Monitoring Progress



#### 3.3.1 Some Important facts about Ongoing Monitoring

In addition to validating conformance with the Standards, ongoing monitoring may identify opportunities to improve the internal audit activity. In such cases, the CIA typically addresses these opportunities and may develop an action plan. Results of ongoing monitoring should be reported to the Chief Internal Auditor at least annually, as required by Standard 1320 – Reporting on the Quality Assurance and Improvement Programme.

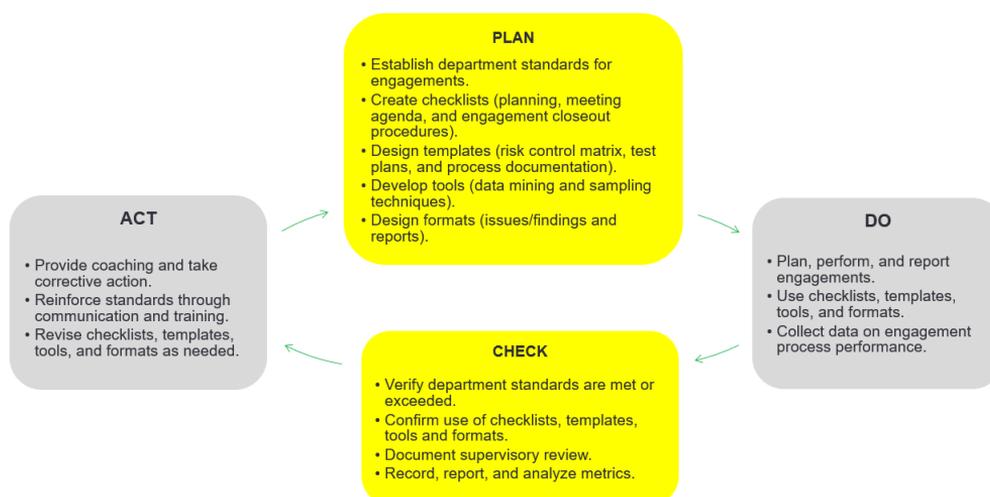
*Figure 5: Ongoing Monitoring Reporting Aspects*

Important Facts	
<b>Reporting</b>	By IA of IAU to the CIA of IAU/CCA
<b>How often is it Performed?</b>	With each Audit Engagement
<b>Monitoring conducted by</b>	Internal Auditor of IAU executing the assigned Audit
<b>What to include in the Report?</b>	Conclusion, Recommendations & Corrective Action Plans

The Deming Cycle (or Plan-Do-Check-Act cycle) provides a possible structure in establishing the QAIP. An internal auditor needs to apply the Deming Cycle to the ongoing monitoring portion of the QAIP. The steps in the Deming Cycle are as follows:

- ▶ **Plan** means establishing expectations for operating a process to meet specific objectives, goals, or deliverables.
- ▶ **Do** means executing the process and collecting data for analysis and follow-up in the Check and Act steps of the cycle.
- ▶ **Check** is the step where actual results are compared to expected outcomes and differences are analyzed.
- ▶ **Act** is where feedback is provided to the operators of the process to reinforce expectations established in the previous Plan step. It is in this step that improvements to the process are identified and implemented.

**Figure 6: Example of Deming Cycle to the ongoing monitoring**



*Note: The above examples are for illustrative purpose and reference only and are not intended as a comprehensive or complete list of activities. The actual deming cycle at respective Internal Audit unit may vary.*

**Key Tips:**

Generally, ongoing monitoring occurs routinely throughout the year via the implementation of standard work practices. To facilitate this, the CIA of CCA may develop templates for internal auditors to use throughout engagements, ensuring consistency in the application of the Standards.

Adequate supervision is a fundamental element of any quality assurance and improvement programme (QAIP). Supervision begins with planning and continues throughout the performance and communication phases of the engagement. Adequate supervision is ensured through expectation-setting, ongoing communications among internal auditors throughout the engagement, and workpaper review procedures, including timely sign-off by the individual responsible for supervising engagements.

### ISPPIA 2340 – Engagement Supervision provides further guidance on internal audit supervision

The ongoing monitoring applies to all assurance and consulting assignments and should achieve the objectives described in **Standard 2340 – Engagement Supervision** which states,

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

This standard also requires that appropriate evidence of supervision is documented and retained. This documentation provides assurance that ongoing monitoring is incorporated into the routine policies and practices that are used to manage the internal audit activity. In other words, a quality review must be performed for each engagement. This review provides an opportunity for ongoing evaluation, coaching, and feedback for each auditor assigned to the engagement.

#### 3.3.2 Mechanisms of Ongoing Monitoring

The mechanisms commonly used for ongoing monitoring include:

- ▶ Checklists or automation tools to provide assurance on internal auditors' compliance with established practices and procedures and to ensure consistency in the application of performance standards. **Refer Appendix 2** for checklist on Ongoing Monitoring for details.
- ▶ Feedback from internal audit clients and other stakeholders regarding the efficiency and effectiveness of the internal audit team. Feedback may be solicited immediately following the engagement or on a periodic basis (e.g., semi-annually or annually) via survey tools or conversations between the CIA and management. **Refer Appendix 3** for example of Stakeholder Survey sent after Internal Audit is completed for details.
- ▶ Staff and engagement key performance indicators (KPIs), such as the number of certified internal auditors on staff, their years of experience in internal auditing, the number of continuing professional development hours they earned during the year, timeliness of engagements, and stakeholder satisfaction.
- ▶ Other measurements that may be valuable in determining the efficiency and effectiveness of the internal audit activity. Measures of project budgets, timekeeping systems, and audit plan completion may help to determine whether the appropriate amount of time is spent on all aspects of the audit engagement. Budget-to-actual variance can also be a valuable measurement to determine the efficiency and effectiveness of the internal audit activity.

The IT application such as Audit Management System can also support Internal Auditors of IAU or CIA to perform ongoing monitoring of Internal Audit activity. The AMS is a work flow which contains the entire life cycle of the Internal Audit starting from planning, execution, and reporting to monitoring. Hence, IA of IAU can perform the Ongoing Monitoring with the use of AMS. Following are the activities of ongoing monitoring that can be monitored in AMS:

- ▶ **Engagement Planning (ISPPIA 2200):** The AMS has functionality of setting the risk parameters for whole of the audit universe of a government agency. The risk parameters can be ranked in terms of high, medium or low. The audit units can

be selected based on audit-risk ranking. This activity is considered as risk-based selection of audit units. It can be monitored through AMS, whether Internal Auditor has given due consideration while identifying the risk parameters by assigning suitable weights whether Internal Auditor has selected the audit unit based on results of AMS risk ranking, and whether the annual plan prepared are through the risk ranking shown by AMS or based on deviations, if any..

- ▶ The Audit Engagement letter can be prepared and sent through AMS to respective audit units. It can be monitored whether all the engagement letters are sent through AMS. The progress of audit planning can also be monitored in AMS (for example, status on which of the planned audits have been initiated and engagement letter sent to audit units). Further, it can be used to identify whether the engagement letter contains audit objective, audit scope, tentative work programme, etc. as required by the ISPPIA 2210 – Engagement Objectives, ISPPIA Engagement Scope, ISPPIA 2240 – Engagement Work Programme.
- ▶ **Performing Engagement (ISPPIA 2300):** The IA can perform the audit, maintain a daily diary, issue audit memos and fill checklist (i.e. documenting audit unit response) through AMS. The audit unit can view the number of audit memos issued and provide responses to the auditor with documentary evidence. The ongoing monitoring includes review of the process of reporting the audit memo and the basis of dropping the audit observation. The AMS contains a log on number of audit memos issued along with the number of audit memos converted to audit paras. This trail will help auditors in monitoring whether sufficient and appropriate response has been obtained, which let the auditor to believe that the observations should or should not be reported.
- ▶ **Communicating Results (ISPPIA 2400):** The proposed AMS system has functionality of preparing audit reports from the AMS itself. This will help in achieving standardization. The report should be based on 5 Cs. i.e. Criteria (what should be), Condition (the current state), Cause (the reason for the difference), Consequence (effect) and Corrective action plans/recommendations. During ongoing monitoring, the auditor can review whether the reporting has been done on the basis of 5 Cs or not. The auditor can also monitor from AMS if all the observations from audit memos for which sufficient and appropriate evidence was not provided has been reported as audit para in the audit report. This can be done by comparing the number of audit paras with the number of audit memos not rejected and selected as “reported as audit para” in the system.
- ▶ **Monitoring Progress (ISPPIA 2500):** Through AMS the CIA/IA of IAU can monitor the progress of audit, determine the current stage of audit, status of audit para compliance and identify the audits due in next month / quarter. Through the dashboard the auditor can monitor the number of audit recommendations implemented, identify which has most of the observations, and which amongst them are the repetitive observations. All these shall help in monitoring the audit and develop an action plan for an efficient and effective internal audit.

### 3.4 Periodic Self-Assessment

Periodic self-assessments have a different focus than ongoing monitoring in the sense that they generally provide a more holistic, comprehensive review of the Standards and the internal audit activity. In contrast, ongoing monitoring is generally focused on reviews conducted at the engagement level. Additionally, periodic self-assessments address

conformance with every standard, whereas frequent ongoing monitoring is more focused on the performance standards at the engagement level.

Periodic self-assessments should be conducted by Chief Internal Auditor or Senior Internal Auditor of the IAU/CCA. A dedicated quality assurance team or individual within the internal audit activity who has extensive experience with the International Professional Practices Framework (IPPF), Certified Internal Auditors, or other competent internal audit professionals may be assigned.

### Key Tips:

Periodic self-assessments may be conducted by a Senior Internal Auditor/CIA of IAU / Chief Internal Auditor or by other persons within the organization with sufficient knowledge of internal audit practices, specifically the Standards and Code of Ethics.

### 3.4.1 Some Important facts about Periodic Self-Assessment

*Figure 7: Periodic Self-Assessment Reporting Aspects*

Important Facts	
Reporting	By CIA of IAU/CCA to the CIA of CCA and /or Secretary Finance
How often is it Performed?	At least annually, must be included in the IA Annual Plan
Assessment conducted by	Senior Internal Auditor/CIA of IAU / Chief Internal Auditor or by other persons within the organization with sufficient knowledge of IPPF
What to include in the Report?	Objective, scope, frequency, qualification and independence of the assessors, conclusion, recommendations & corrective action plans



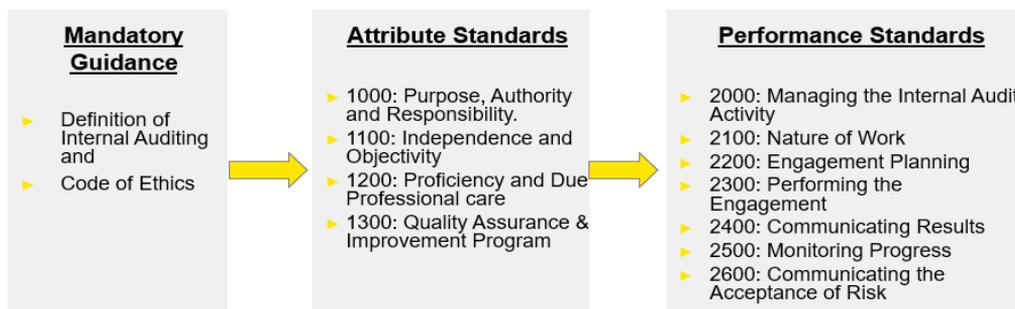
### 3.4.2 Focus of Periodic Self-Assessment

The internal audit activity conducts periodic self-assessments to validate its continued conformance with the Standards and Code of Ethics and to evaluate:

- ▶ Conformance with the internal audit charter and the IIA's Definition of Internal Auditing;
- ▶ The quality of the audit work, including adherence to the internal audit methodology for selected engagements;
- ▶ The quality of supervision;
- ▶ The adequacy and appropriateness of internal audit policies and procedures;
- ▶ The way the internal audit function adds value;
- ▶ The achievement of key performance standards/indicators;
- ▶ The degree to which stakeholder expectations are met.

The periodic self-assessment elements of QAIP address conformance with the following Standards:

**Figure 8: Periodic Self-Assessment element of QAIP**

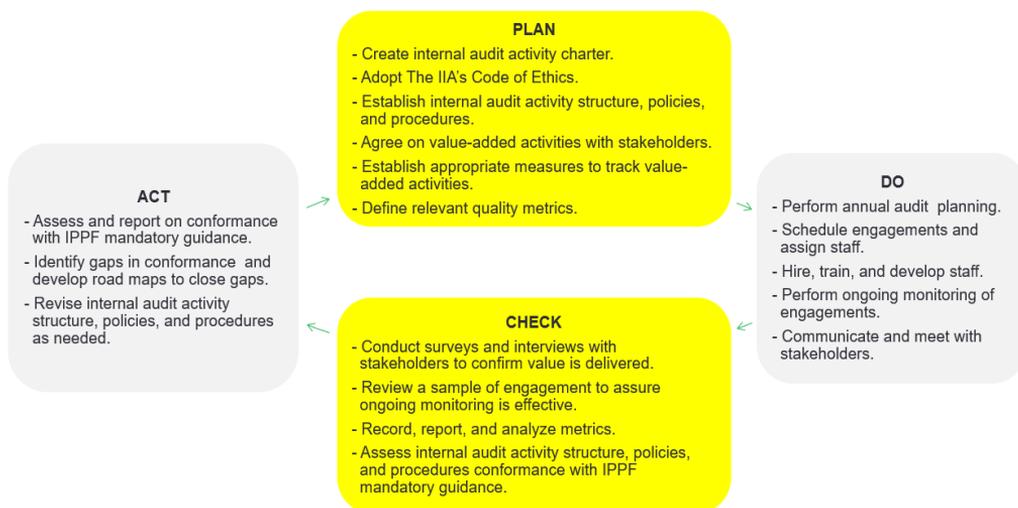


Refer Appendix 4 checklist on Periodic Self-Assessment to assess each of the above standards.

Refer Appendix 10 Guidance on Internal Audit Self-Assessment Methodology.

The periodic self-assessment should also assess results of ongoing monitoring. Applying the Deming Cycle to these additional elements of the QAIP might look like:

**Figure 9: Example of Deming Cycle to the Periodic Self-Assessment**



*Note: The above examples are for illustrative purposes and reference only and are not intended as a comprehensive or complete list of activities. The actual deeming cycle at respective Internal Audit unit may vary.*

Following a periodic self-assessment, where appropriate, the CIA of CCA may develop an action plan to address opportunities for improvement. This plan should include proposed timelines for actions. Results of periodic self-assessments, which indicate the internal audit activity's level of conformance with the Standards and Code of Ethics, must be communicated to the board upon completion, as required by Standard 1320.

### Example

#### Case Study 1

While performing periodic-self assessment of one of the IAUs at Ministry, CIA comes across a situation where he/she finds that the Internal Audit staff member is not aware of due professional care standards (e.g. extent of work needed to achieve the engagement's objectives, use of technology-based audit and data analysis techniques, cost of assurance in relation to potential benefits as required by Standard 1220). What would you Recommend in this case?

**Recommendation:** Perform a competency assessment to identify competency gaps and develop a formal Internal Audit training programme by level and competency for the Internal Audit Staff.

#### Case Study 2

Internal Audit plan of a government agency historically has covered mostly financial and compliance risks and had limited coverage of operation or strategic risks. What would be the corrective action plan in this scenario?

**Recommendation:** The scope of the future IA plans should cover key risks across the agency (strategic, operations, compliance and financial). In addition, IA should consider including "strategic" as an audit category so that there is a clear linkage between audit-risk categories.

Further, there should be a clear linkage of top tier risks to audit plan and those risks not covered by IA. Also, there should be a provision to identify who is providing assurance related to those risks.

#### Case Study 3

What if

- a) Internal Audit function is heavily reliant on a few key people.
- b) A formal IA training programme does not exist. Additionally, there is no formal competency assessment performed on a periodic basis to identify resource or knowledge gaps.

**Recommendations:** Implement one of the following models to bridge the competency gap:

- ▶ Implement a formal people-rotational model in which resources rotate between IA and other entities (Ministry, Dzongkhag etc.) for an extended period of time.
- ▶ Utilize a guest auditor programme that allows subject matter resources to supplement core team for specific audits that require a certain expertise that the government agency has in-house.

- ▶ Develop a competency assessment model to identify gaps in skill sets of IA and determine appropriate way to obtain that skill set to effectively audit key risks of the entity.
- ▶ Develop a formal IA training programme by level (e.g., management/business acumen skills for auditors in supervisory roles) and competency.

#### Case Study 4

The audit plan of IAU at an autonomous body is consistent with the IA Charter and department goals, and is developed using a risk-based approach, and the risk assessment is updated annually. The Audit plan is approved by the head of government agency and consists of matters needed or requested by the management. Also, the Chief Internal Auditor /Senior Internal Auditor of IAU regularly communicates the results of Internal Audit activities to the head of government agency. However, the observation during periodic self- assessment are as follows:

- ▶ Complex risk assessment process, causing difficulty to align audits to the risks that matter.
- ▶ Internal Audit policies and procedures are not adequately documented.
- ▶ Efforts with respect to follow-up, analysis of deviations from budget and corrective actions is inadequate.
- ▶ Internal Audit reports are not issued timely.
- ▶ Internal Audit group is not actively involved in new system implementations and significant change initiatives.

What will you recommend in this scenario?

#### Recommendations:

- ▶ Review policies and procedures for missing components and details to expand Internal Audit function.
- ▶ Include procedures to update the audit plan based on re-evaluation of key risks.
- ▶ Update to include full coordination and integration of risk assessment / audit planning in internal audit activities.
- ▶ Consider placing more emphasis on performing follow-ups, analysis of deviations from budget and corrective actions.
- ▶ Change model to be an annual risk assessment versus a project risk assessment.
- ▶ Change risk assessment process.
- ▶ Reduce the length of time needed to perform the risk assessment. While the Internal Audit risk assessment process covers a broad array of the enterprise risks, the process could be further reduced to focus on linking potential audits to enterprise risks, rather than taking time to plan, scope and validate audits to be performed.
- ▶ Revisit risk universe not just annually, but as and when needed throughout the year.
- ▶ Internal audit risk assessment should be linked to the organization's risk management framework and the identified risks.

### **3.5 Considerations for Demonstrating Conformance**

Multiple items may indicate conformance with Standard 1311, including any evidence that ongoing monitoring activities were completed according to the internal audit activity's QAIP. Examples may include completed checklists that support workpaper reviews, survey results, and KPIs related to the efficiency and effectiveness of the internal audit activity, such as an analysis of budget-to-actual engagement hours. In addition, conformance may be demonstrated by documentation of completed periodic assessments, which include the scope of the review and approach plan, workpapers, and communication reports. Finally, presentations to the Secretary of Finance, meeting minutes, and the results of both ongoing monitoring and periodic self-assessment — including corrective action plans and corrective actions taken to improve conformance, efficiency, and effectiveness — may indicate conformance.



**4**

**External  
Assessment**

## Chapter 4: External Assessment

### ISPPIA 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 Internal Auditor must discuss with the Finance Secretary:*

- ▶ *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 Internal Auditor 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 Internal Auditor should encourage Finance Secretary's oversight in the external assessment to reduce perceived or potential conflicts of interest.

### 4.1 External Assessment

External quality assessments evaluate conformance of the internal audit function with the Internal Audit Charter, guidelines and directives issued by the MoF, definition of Internal Auditing, the Code of Ethics, the Standards and additionally with internal auditing best practices.

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 conduct external assessment in IAUs every five years by a qualified and independent reviewer from outside the organization.

The provision of an effective internal audit service is a government objective, provided for in the Public Finance Act. It would be more useful, effective and cost-efficient if a unified External Assessment of the overall function of the IAS within RGoB, and encompassing all

the IAUs within the service, were conducted as a whole. The CCA should coordinate with all IAUs and arrange for a unified External Assessment at least once every five years.

The CIA of CCA must discuss with the top management of the line agency on scope, form and also qualification and independence of the external assessor including possible conflict of interest.

The CCA and all the IAUs should cooperate with and facilitate the work of the reviewers appointed to conduct the external assessment so that the exercise will be useful in helping further strengthening the Internal Audit Services as an effective organ of the RGoB.

#### Key Tips:

1. For a QAIP to be deemed effective, CIA of CCA should expect external assessors to affirm what the CIA of CCA is measuring in regard to conformance with the Standards and the Code of Ethics through the periodic self-assessment process and reporting of results to key stakeholders. The CIA's report of the periodic self-assessment may be used as a basis for assessment by an external assessor.
2. Proper documentation should be maintained by the CIA of CCA as evidence of an effective QAIP in the established Internal Audit activity. This includes charters, policies, procedures, metrics, audit reports, annual audit plans, engagement workpapers, staff training records, etc. External assessors would want to examine relevant documentation that describes key elements of the QAIP.

## 4.2 Implementation of External Assessment

The decision to schedule an external assessment often results from the CIA's requirement to perform an external assessment every five years. The CIA of CCA might consider other factors when determining specific timing and scope for this review:

- ▶ Does the CIA believe that the internal audit activity generally conforms with the Standards and the Code of Ethics?
- ▶ Is the documentation describing the QAIP comprehensive and complete?
- ▶ Have feedbacks from key stakeholders been incorporated into the QAIP?
- ▶ Have discussions with the Finance Secretary established additional expectations related to operational or strategic goals?

As noted in Standard 1312 – External Assessments, CIAs can choose from two methodologies for external assessments.

- ▶ A full external assessment, or
- ▶ An independent, external validation of the CIA's self-assessment of the internal audit activity.

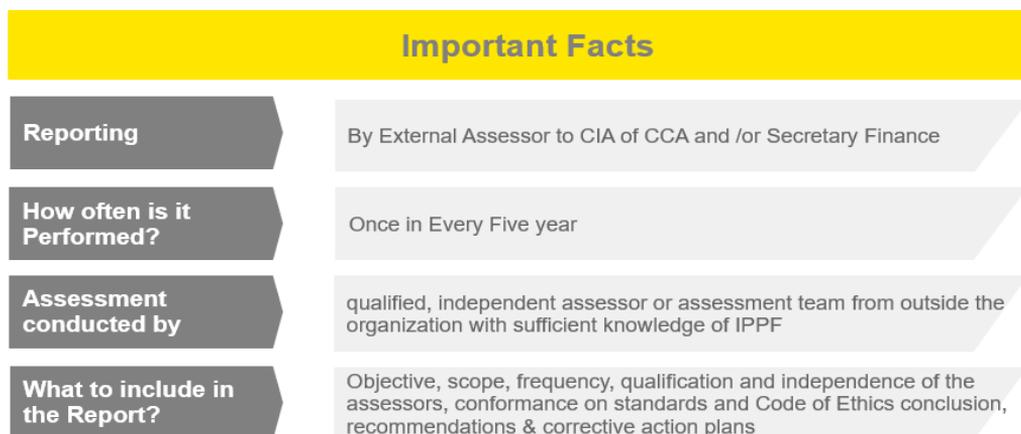
Both the methodologies require that they can be conducted by a qualified, independent assessor or assessment team from outside the organization. The qualified, independent assessor or assessment team must demonstrate competence in two areas:

- ▶ The professional practice of internal auditing and;
- ▶ The external assessment processes.

Several factors may influence the CIA's decision in selecting an appropriate external assessment method to review the internal audit activity's QAIP. This is an area where the Finance Secretary might take an active role in oversight of the QAIP as suggested in the Standards.

### Some Important facts about External Assessment

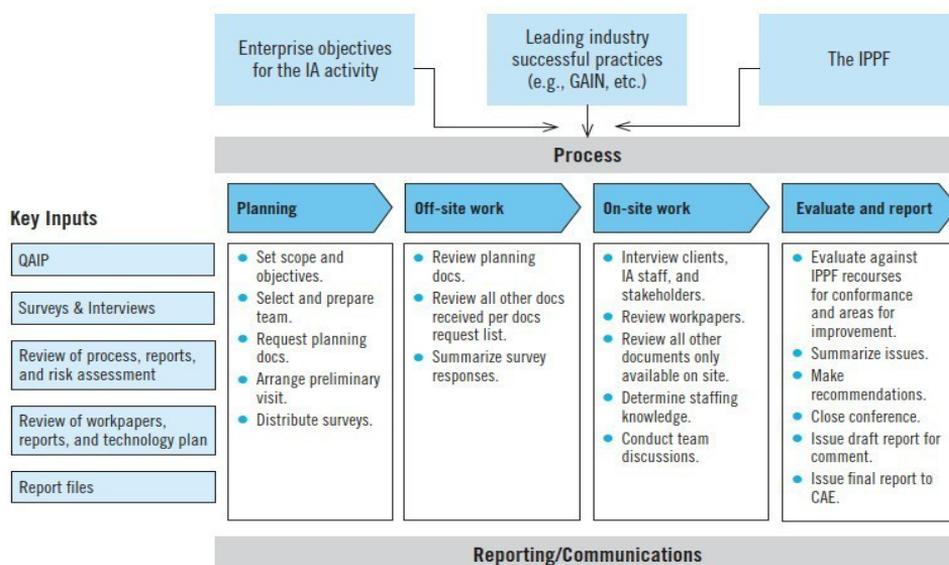
Figure 10: External Assessment Reporting Aspects



### 4.3 Full External Assessment

The external assessment process, including planning, fieldwork, and reporting activities, are described to facilitate the execution of a full external assessment. Where appropriate, references are made to Appendices used to document the assessment. These appendices are found in the last chapter of this guideline.

Figure 11: Approach to the full external assessment process



### 4.3.1 Planning

The five points of the planning process, if followed by the external assessment team leader, enhance the customer's involvement in and satisfaction with a value-added experience:

- ▶ **Set scope and objectives:** Agree on the scope, objectives, and timing of the full external assessment.
- ▶ **Select and prepare the team:** Select and train (as needed) the full external assessment team.
- ▶ **Request planning documents:** Request and review the planning guides completed by the internal audit activity and clarify any questions or concerns.
- ▶ **Arrange preliminary visit:** Conduct a preliminary visit or teleconference to gather further information, finalize the work plan, select and schedule interviews with the internal audit activity's key stakeholders and internal audit management and staff, and prepare for the on-site visit.
- ▶ **Distribute surveys:** Distribute the executive leadership and operating management and Internal Audit staff surveys to participants.

#### 4.3.1.1 Set Scope and Objectives

The scope includes key elements:

- ▶ The internal audit activity charter that documents the purpose, authority, and responsibility of the internal audit activity and is approved by the board.
- ▶ The expectations of the internal audit activity expressed by the oversight group, executive management, and any other stakeholders.
- ▶ The entity's control environment and the CIA's audit practice environment.
- ▶ The focus on evaluating governance processes, risk, and assessing organizational controls in audit plans.
- ▶ The integration of internal audit into the organization's governance processes, including the combined assurance relationships and communications between the key governance groups and assurance providers involved in that process, and the alignment of audit objectives and plans with the objectives of the entity as a whole.
- ▶ The IPPF and any other legal requirements laid down for the internal audit activity within Bhutan.

The objectives achieved in a full external assessment:

- ▶ Provide an opinion on the internal audit activity's conformance with the Standards and the Code of Ethics.
- ▶ Assess the efficiency and effectiveness of the internal audit activity in light of its charter; its processes and infrastructure, including the QAIP; the mix of knowledge, experience, and expertise, and the expectations of the Finance Secretary, management, other stakeholders & assurance providers, and the CIA.
- ▶ Consider the internal audit activity's current needs and objectives, as well as the future direction and goals of the organization. Appraise the risk to the organization if the results indicate that the internal audit activity is performing at a less than effective level or is not in conformance with one or more of the Standards.
- ▶ If applicable, identify opportunities and offer ideas to the CIA and staff for improving the effectiveness of the internal audit activity, thereby raising the value added to the management and the audit committee.

The objectives listed can be modified and others can be added based on the scope and terms of reference as agreed between Chief Internal Auditor of CCA and External Assessor.

#### 4.3.1.2 Select and Prepare the Team

As noted in the Interpretation to Standard 1312 – External Assessments, “A qualified assessor or assessment team demonstrates competence in two areas:

- ▶ the professional practice of internal auditing and ;
- ▶ the external assessment processes. Competence can be demonstrated through a mixture of experience and theoretical learning.

##### Key Tips:

Qualified individuals are persons with the technical proficiency, internal audit experience, business experience, and educational background appropriate for the audit activities to be assessed. This could include internal auditors from outside the organization, independent consultants, or independent external auditors, but preferably not the external audit firm that audits the organization’s financial statements, or consultants providing any co-sourcing for the entity. “From outside the organization” means not a part of, or under the control of, the corporate entity.

The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

- ▶ Standard 1312 – External Assessments specifies that the full external assessment must be conducted by a qualified, independent assessor or assessment team from outside the organization.

##### Example:

Following is a list of the possible qualifications and criteria by which the CIA can assess the competence of a full external assessment team. Specific engagements may require additional unique qualifications.

- ▶ **Experience**
  - The full external assessment team should comprise personnel of at least managerial level.
  - The team leader should have experience that is comparable to that of the CIA of the internal audit activity being assessed.
  - The team leader should be a competent, and certified Internal Audit professional.
  - Each team member should have a thorough understanding of current internal audit practices, the IPPF and its application, sound judgment, and good communication and analytical skills.
  - The full external assessment team should possess or have ready access to all of the necessary technical expertise (e.g., governance, IT, risk management, internal audit attributes, management consulting, and internal audit management).
  - Knowledge of the organization’s industry, service, or internal audit activity by at least one team member is an important consideration to be evaluated by the customer.

- ▶ Objectivity
  - The full external assessment team should objectively consider the expectations of the Finance Secretary, and the CIA; the audit structure, the policies & procedures of the organization and the internal audit activity.
  - To ensure freedom from bias in the full external assessment, there should not be any relationship, either directly or indirectly, between the organization and the full external assessment team that is, or appears to be, a conflict of interest. Such relationships could significantly negate the benefits of the full external assessment.

#### **4.3.1.3 Request the Planning Documents Completed by the Internal Audit Activity**

The full external assessment process becomes easier when planning documentation is completed by the internal audit activity before the on-site visit by the team. The team leader requests relevant documentation from the CIA of CCA to enable work to begin on the full external assessment prior to the on-site visit.

A comprehensive list of planning documentation necessary for the full external assessment is provided to the CIA for completion, as well as survey invitations to be responded to by executive leadership, operating management, and internal audit staff.

#### **4.3.1.4 Arrange a Preliminary Visit (or Teleconference)**

The full external assessment team leader should arrange a preliminary visit or teleconference with the CIA to:

- ▶ Meet the CIA and other staff that may be assisting the team during the on-site visit.
- ▶ Clarify any misunderstandings regarding the planning documentation.
- ▶ Ensure that all documents requested per the checklist can be provided.
- ▶ Ensure that there are no misunderstandings regarding the time, venue, scope, and objectives of the full external assessment.
- ▶ Identify the executive leadership, operating management, internal audit activity staff, and other key stakeholders with whom meetings will be arranged.
- ▶ Agree on the list of participants for the surveys: executive leadership, operating management, and internal audit activity staff.

The full external assessment team leader should keep minutes (or a summary) of the meeting for later attention and impressions of the organization.

#### **4.3.1.5 Distribute Surveys**

Distribute the Executive Leadership, Operating Management and Internal Audit Staff surveys to participants.

#### 4.3.2 Off-Site Work (To be completed prior to On-site Visit)

The full external assessment team leader should review the planning documentation and all planning guides and documents noted on the document request list provided by the CIA before visiting the organization. This will help to plan the work outlined in the programmes that will be performed on-site.

- ▶ The CIA should complete the two surveys and provide his or her best assessment of how executive leadership, operating management, and the internal audit activity staff will respond to each statement. Comparing the CIA's responses with survey results from the executives, operating managers, and internal audit staff, will provide the full external assessment team with possible opportunities for improvement and would help identify areas of strength for the internal audit activity.
- ▶ Summarize the survey results for feedback to the CIA. Areas of significant divergence between CIA responses and those of survey participants should be investigated by the full external assessment team during their interviews.
- ▶ The full external assessment team (with input from the CIA during the on-site visit) will need to interpret whether survey information has identified positive or negative ratings or trends. The CIA should be encouraged to use this information during training sessions with internal audit activity staff to emphasize positive results and highlight areas that need improvement.

#### 4.3.3 On-Site Work

On-site work is the most comprehensive element of a quality assessment and includes the following:

- ▶ Interview selected members of the management, operating managers, and internal audit units and staff, and focus on organizational risks, objectives, and the internal audit activity's effectiveness for staying current and adding value, with respect thereto is one of the most valuable on-site activities. Interviews allow for in-depth exploration of issues raised by survey results, and the perceptions gathered from interviews should be investigated further and corroborated whenever possible, complete with hard evidence. It is best to conduct these interviews at the beginning of the on-site visit, but they may continue throughout the visit to accommodate the busy schedules of executive management.
- ▶ Consider the work of other monitoring and assurance functions. Determine if any reliance is placed on the work of other assurance functions and the mechanisms in place to support this reliance.
  - Determine if the CIA is responsible for other areas beyond internal auditing; and if so, the mechanisms in place to actively manage the actual or perceived impairments to independence or objectivity this might cause.
  - Review the internal audit activity's audits and consulting engagements, reports, and supporting documentation and its administrative and operating policies, practices, procedures, and records.
- ▶ Determine if the staffing knowledge and skills, especially in IT, risk assessment, controls monitoring, interaction with governance participants, successful practices, and other areas, will pinpoint evidence of continuous improvement.
  - Review reports and communicate with management and the board (audit committee) to assess the extent that the internal audit activity meets objectives and adds value.

- Review and assess the coordination of the internal audit activity with the work of the independent auditors.
  - Evaluate the internal audit activity's conformance with the Standards and Code of Ethics and other relevant policies and procedures,
  - Review the quality/process improvement actions currently underway and planned for the near term. Also consider successful practices appropriate to the organization's environment.
- ▶ The on-site process is a cumulative experience for the team. Therefore, frequent discussions are held, and information is assessed to offer practical suggestions reflecting the current thinking of the profession.

The time spent for on-site work should be determined by such factors as the size of the internal audit activity, workpaper reviews, and interview schedules. On-site work typically lasts for one to two weeks, depending on the scope of work, objectives of the full external assessment, the size & geographic dispersion, and structure of the internal audit activity.

#### **4.3.4 Evaluate and Report**

##### **4.3.4.1 Evaluate Against the IPPF**

The most important aspect of the full external assessment is the team's evaluation of the internal audit activity's conformity with the Standards and the Code of Ethics, its adherence to its charter, the extent of its adoption of successful practices, and its programme of continuous improvement. These evaluations may also identify additional opportunities for continuous improvement. This process is the culmination of the full external assessment team's analysis of surveys, interviews, and documentation.

As appropriate, the full external assessment team will provide the CIA with recommendations for the internal audit activity to enhance conformance with the Standards & the Code of Ethics, add value for clients, and be a catalyst for positive change in the organization. Finally, the full external assessment team will exercise its professional judgment to render an opinion as to the level of conformance with the Standards and the Code of Ethics by the internal audit activity.

##### **4.3.4.2 Summary of Issues, Recommendations, and Closing Conference**

Issues should be brought to the attention of the CIA and discussed as appropriate as they come up throughout the full external assessment. The closing conference should be regarded as an opportunity to summarize and formalize the views of the full external assessment team and the CIA.

- ▶ The full external assessment team's evaluation process emphasizes successful practices and the issues that require attention. It is desirable to prepare a written summary of the successful practices, observations, and recommendations for those attending the closing conference. This written summary provides the team leader and team members with a framework for the closing conference.
- ▶ The CIA, with advice from the full external assessment team leader, will decide who will attend the closing conference. Since the individual observations should have been discussed with internal audit management throughout the full external assessment, the closing conference should hold no surprises. It should be an orderly discussion of the significant issues, conclusions, and recommendations. It also provides the CIA with an opportunity to comment on the observations and recommendations.

#### 4.3.4.3 Reporting

A draft report is prepared either before or after the closing conference. When the full external assessment team leader completes the draft, copies are sent to the team for comment within a specific time frame. Comments are considered and, as appropriate, incorporated into the draft report before it is sent to the CIA. The CIA is asked to respond to the recommendations and provide an action plan.

- ▶ The final report, in conjunction with the CIA's response or action plan, will typically be addressed to the CIA with the expectation that copies will be distributed to representatives of the internal audit oversight body and the executives to whom the CIA reports (i.e. Finance Secretary). Copies of the full external assessment report should also be addressed to the individuals or groups initiating the full external assessment.

#### 4.4 Self-Assessment with Independent Validation

As noted in Standard 1312 – External Assessments, “External assessments may be accomplished through a full external assessment, or a self-assessment with independent validation.”

A self-assessment with independent validation includes a comprehensive and fully documented self-assessment process that requires the CIA to complete the self-assessment work, and normally provides limited attention to benchmarking, review, and consultation related to successful internal audit practice. Essentially, the CIA oversees the efforts of an internal assessment team that completes planning documentation, performs assessment work programmes, evaluates conformance with the Standards and Code of Ethics, and produces a report summarizing assessment results.

The same work needs to be performed and documented for a self-assessment with independent validation as for a full external assessment (see section 4.3 Full External Assessment). The self-assessment should be performed with the same level of due professional care found in performing other internal audit engagements and should be structured in a manner that fully documents and supports planning, fieldwork, and reporting activities.

The independent external assessor or assessment team validates the work of the internal assessment team through review of assessment planning documentation, re-performing a sample of assessment work programme steps, conducting interviews with key stakeholders (Finance Secretary, executive leadership, operating management, internal audit management and staff), and assessing the conformance conclusions reported by the internal assessment team.

The internal assessment team should expect to submit all of its documentation related to assessment planning, assessment work programmes, and its final assessment report to the independent external assessor or assessment team well in advance of any on-site visit by the external assessor to perform the validation activities.

##### 4.4.1 Defining the Scope of Assessment

The primary objective is to assess conformance with the Standards and Code of Ethics. Through consultation with the senior management, the CIA should define the scope of the self-assessment with independent validation, which may include feedback on potential leading practices or identification of opportunities for enhancing existing internal audit activity processes.

#### 4.4.2 Planning

A well-established QAIP provides a solid framework for achieving a successful self-assessment with independent validation. The documentation, assessments, metrics, and reporting that comprises of internal audit activity's QAIP should be useful in preparing much of the material required to perform the assessment.

Planning, scheduling, and staffing the self-assessment should follow the same process the internal audit activity uses to execute and control any assurance or consulting engagement. Assigning resources necessary to complete the self-assessment should be part of the annual plan for the internal audit activity for the year in which the self-assessment with independent validation is to be performed. Progress updates regarding the self-assessment should be included with status reporting for all other engagements in the process as a component of periodic reporting to senior management and the board.

Key considerations for determining resource requirements and preparing a schedule of activities for self-assessment with independent validation include:

- ▶ An evaluation of additional documentation and analysis required by the planning tools beyond what is readily available from the internal audit activity's existing QAIP documentation.
- ▶ An estimate of time required for distributing, collecting, and analysing survey tools. This activity should be coordinated with the external independent assessor as discussed below.
- ▶ A proposal from the independent external assessor regarding the number of interviews they wish to conduct with the senior executives, operating management, internal audit activity management and staff. This activity should be coordinated with the external independent assessor.
- ▶ An estimate of the time required for the internal assessment team to complete the assessment programmes. A critical assumption for this estimate is the number of engagement files to be reviewed as part of the internal audit process programme.
- ▶ A discussion with the independent external assessor regarding how much time they need for their on-site work, and how far in advance of the on-site work they want to receive documentation prepared by the internal audit activity's internal assessment team.

Upon completion of the on-site work by the independent external assessor, the self-assessment with independent validation's schedule should allow time for the external assessor to complete the Independent Validation Statement.

#### 4.4.3 Selecting the Independent External Assessor for A Self-Assessment with Independent Validation

The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

The CAE should consult with the Finance Secretary and senior leadership regarding selection of the external assessor or assessment team based on a thorough review of their qualifications and experience. The CIA should also obtain a signed statement from the external assessor or assessment team confirming their independence as defined in the Standards. This is typically done during the contracting process.

#### 4.4.4 Communication and Coordination with the External Validation Assessor

Most of the work in performing a self-assessment with independent validation is completed by the internal audit activity's internal assessment team. However, the external assessor will perform some work during the on-site visit, and coordination with the internal assessment team will facilitate completion of the external assessor's work.

- ▶ **Coordination in the completion of surveys.** The internal assessment team (or CIA) and the external assessor should agree on who will be asked to participate in the surveys and on the schedule for completing the surveys. The internal assessment team would be responsible for sending out the surveys. Survey participants shall normally send their responses directly to the external assessor for collation and evaluation of results. The external assessor will review results of the surveys with the CIA and the internal assessment team during the on-site visit. The external assessor will also use information gained from the surveys in completing interviews with key stakeholders.
- ▶ **Coordination in scheduling and conducting interviews with key stakeholders.** The internal assessment team (or CIA) and the external assessor should agree on who will be interviewed and on the schedule for completing the interviews. Interviews are normally conducted by the external assessor during the on-site visit.

At a minimum, the external assessor or assessment team will interview the Finance Secretary, the CIA, the person to whom the internal audit activity reports to administratively within the organization, and the external audit partner. Other interviews of key stakeholders are specifically coordinated with the CIA.

During the on-site visit, the external assessor will review tests of audit engagement files prepared by the internal assessment team. The external assessor may also want to review other audit engagement files not reviewed by the internal assessment team. To enable the external assessor to complete this review, the internal assessment team should provide the external assessor with appropriate access to any relevant application.

#### 4.4.5 Work to be completed before the On-Site Visit

The CIA should oversee completion of the self-assessment of internal audit activity. Key elements of the self-assessment to be performed and documented by the internal audit activity's internal assessment team include:

- ▶ Completing the planning which includes an analysis of the internal audit activity's operations and answers to a series of questions that provide insight into the CIA's views regarding specific conformance criteria related to the Standards or the Code of Ethics.
- ▶ Conducting surveys that collect information from senior leadership, operating management, internal audit management and staff regarding various aspects of the internal audit activity. Use of the surveys should be coordinated with the external assessor or assessment team as described above.
- ▶ Executing the assessment programmes that are intended to collect, evaluate, and document evidence of conformance with the Standards and the Code of Ethics.
- ▶ Summarizing results of the evaluation.
- ▶ Preparing a report of the results of the self-assessment to be validated by the external assessor and eventually distributed to the board and other appropriate stakeholders.

All of the above materials should be made available to the external assessor for use in completing the review and validation of the self-assessment. The internal audit activity should coordinate with the external assessor or assessment team as to which documents will be supplied to the external assessor before the on-site visit. The external assessor will also schedule interviews to be conducted during the on-site visit.

#### 4.4.6 Work Completed during the On-Site Visit

During the on-site visit, the external assessor will review documentation prepared by the internal assessment team and perform sufficient tests of the self-assessment to validate results and express an opinion regarding conformance with the Standards and the Code of Ethics to include:

- ▶ Exercising professional judgment in determining the extent of testing of the self-assessment based on the size and complexity of the internal audit activity.
- ▶ Conducting interviews with key stakeholders to follow up on any issues or opportunities identified from the surveys—all within the agreed-upon scope of the self-assessment with independent validation.

As nearly all of the work performed during a self-assessment with independent validation is completed by the internal audit activity's internal assessment team, the amount of time required on site by the external assessor is normally much less than that required by an external assessment team performing a full external assessment.

#### 4.4.7 Reporting and Follow-up

Upon completion of fieldwork, the independent external assessor will provide an opinion confirming the results, or expressing disagreement with the self-assessment, as appropriate. If the external assessor is not in agreement with the self-assessment report, the external assessor can add dissenting wording to the report, specifying the points of disagreement.

The final report of the self-assessment with independent validation should be signed by the internal audit activity's internal assessment team and the independent external assessor and should be issued by the CIA to Finance Secretary.

**Refer Appendix 14** on Standard Conformance Evaluation Summary (Table) Template

**Refer Appendix 15** on Standard Conformance Evaluation Summary Template

**Refer Appendix 16** on Standard Rating Criteria

**Refer Appendix 17** on Checklist on External Quality Assessment



# 5

## Reporting and Follow-up of QAIP

## Chapter 5: Reporting and Follow-up of QAIP

### ISPPIA 1320 – Reporting on the Quality Assurance and Improvement Programme

*The Chief Internal Auditor must communicate the results of the quality assurance and improvement programme to senior management and the Finance Secretary. 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 programme is established through discussions with senior management and considers the responsibilities of the internal audit activity and Chief Internal Auditor 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.

### ISPPIA 1321: Use of Conformance 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 programme.*

#### **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 programme 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.

### ISPPIA 1322: Disclosure of Nonconformance

*When non-conformance with the Code of Ethics or the Standards impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.*

## 2500 - Monitoring Progress

*The Chief Internal Auditor must establish and maintain a system to monitor the disposition of results communicated to management.*

- ▶ *2500.A1 - The chief audit executive 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.*

## 5.1 Overview of QAIP reporting

Standard 1320 communicates the minimum criteria that the Chief Internal Auditor must communicate to senior management related to the QAIP. Reviewing the requirements related to each element in the standard may help the CIA prepare to implement this standard.

As this standard indicates, the CIA of CCA is responsible for communicating the results of the entire QAIP. To do this, the CIA must understand the requirements of the QAIP. Generally, CIA meets regularly with senior management to understand and agree upon the expectations for communications surrounding the internal audit activity, including those regarding the QAIP. The CIA also considers the responsibilities related to the QAIP that are outlined in the Internal Audit Charter.

The CIA should be aware of any internal assessments, including periodic assessments and ongoing monitoring, as well as completed external assessments. As such, the CIA should have an understanding of the internal audit activity's degree of conformance with the International Standards for the Professional Practice of Internal Auditing (Standards) and The IIA's Code of Ethics.

## 5.2 Activities of Quality Assurance and Improvement Programme Reporting Timelines

Quality Assurance & Improvement Programme			
Ongoing Monitoring of Performance			
Activity	Frequency	Responsibility	Reporting
Review of the audit universe	Annual	Chief Internal Auditor of CCA (i.e. Head of Internal Audit Services)	N/A
Identification of risks affecting the operation of the Internal Audit Service	Quarterly	Chief Internal Auditor of CCA (i.e. Head of Internal Audit Services)	N/A
Review of audit engagements	Each engagement	Chief Internal Auditor/Senior Internal Auditor of IAU	N/A
Progress against the audit plan	Monthly	Chief Internal Auditor/Senior Internal Auditor of IAU	Quarterly report to Chief Internal Auditor of CCA (i.e. Head of Internal Audit Services)

Progress against Key Performance Indicators	Quarterly	Chief Internal Auditor/Senior Internal Auditor of IAU	Quarterly report to Chief Internal Auditor of CCA (i.e. Head of Internal Audit Services)
Discuss performance of internal audit activity	Monthly	Chief Internal Auditor/Senior Internal Auditor of IAU	Annual report to Chief Internal Auditor of CCA (i.e. Head of Internal Audit Services)
Customer survey / questionnaire	Each engagement	Chief Internal Auditor/Senior Internal Auditor of IAU	Quarterly report to Chief Internal Auditor of CCA (i.e. Head of Internal Audit Services)
Review of Internal Audit Charter, policies & procedures	Annual	Chief Internal Auditor of CCA (i.e. Head of Internal Audit Services)	Annual report to Secretary Finance
Personal Development Review	Annual	Secretary of respective government agency	Documentation to RCSC
Continuous improvement activity and adoption of best practice	Continuous	Chief Internal Auditor/Senior Internal Auditor of IAU	Quarterly report to Chief Internal Auditor of CCA (i.e. Head of Internal Audit Services)
Identification of value added to the Internal Audit Services operations	Continuous	Chief Internal Auditor/Senior Internal Auditor of IAU Or Chief Internal Auditor of CCA (i.e. Head of Internal Audit Services)	Annual report to Chief Internal Auditor of CCA (i.e. Head of Internal Audit Services) Or Annual Report to Secretary Finance
<b>Periodic Self-Assessments</b>			
Self-assessment against the Public Bhutan Government Internal Audit Standards (BGIAS)	Annual	Chief Internal Auditor of CCA (i.e. Head of Internal Audit Services)	Annual Report to Secretary Finance
Benchmarking review of Internal Audit Services	Every 3 years	Chief Internal Auditor of CCA (i.e. Head of Internal Audit Services)	Report to Finance Secretary
<b>External Assessments</b>			
Assessment against the BGIAS	Every 5 years	Chief Internal Auditor of CCA (i.e. Head of Internal Audit Services)	Report to the Secretary Finance

### 5.3 Consideration for reporting QAIP

The detailed Quality Assurance and Improvement Programme are documented in the policies and procedures for the internal audit activity (ISPPIA 2040 – Policies and Procedures) and the Internal Audit Charter (ISPPIA 1010 – Recognizing Mandatory Guidance in the Internal Audit Charter). The CIA may begin by reviewing this information to understand

the communication requirements related to reporting on the QAIP, which includes four core elements:

- ▶ Scope and frequency of internal and external assessments.
- ▶ Qualifications and independence of the assessors.
- ▶ Conclusions of assessors.
- ▶ Corrective action plans.

### 5.3.1 Scope and Frequency of Internal and External Assessments

The scope and frequency of both internal and external assessments must be discussed with the senior management (i.e. Finance Secretary) (ISPPIA 1311 – Internal Assessments and Standard 1312 – External Assessments). The scope should consider the responsibilities of the internal audit activity and the CIA, as contained in the Internal Audit Charter.

The scope may include senior management’s expectations of the internal audit activity, as well as expectations expressed by other stakeholders. It may also include internal audit practices assessed against the Standards, as well as any other regulatory requirements that may impact the internal audit activity.

#### 5.3.1.1 Internal Assessments

The CIA must establish a means for communicating the results of internal assessments to enhance credibility and objectivity of the internal audit activity at least annually. The Interpretation of Standard 1320 states that the results of periodic internal assessment should be communicated upon completion of such assessments, and the results of ongoing monitoring should be completed at least annually.

Ongoing monitoring includes reporting on internal audit’s key performance indicators. The CIA of CCA provide an annual report to senior management (i.e. Finance Secretary) regarding the results of ongoing monitoring and include any recommendations for improvement.

The results of internal assessments include, where appropriate, corrective action plans and progress against completion. The CIA of CCA may distribute internal assessment reports to various stakeholders, including senior management (i.e. Finance Secretary), government agency and external auditors.

Auditing Standards require the CIA to report to the Chief Executive of the entity, the results of all the periodic assessments, including internal and external assessments, together with a plan of action for the implementation of all recommendations arising from the assessments. The actions resulting from the recommendations could include modification of resources, technology, processes, and procedures.

#### 5.3.1.2 External Assessments

The CIA must discuss the frequency of external assessments with senior management (i.e. Finance Secretary). The Standards require the internal audit activity to undergo an external assessment at least once every five years. However, upon discussing these requirements with the senior management, the CIA may determine if it is appropriate to conduct an external assessment more frequently. There are several reasons to consider a more frequent review, including changes in leadership (e.g., senior management or the CIA), significant changes in internal audit policies or procedures, the merger of two or more audit organizations into one internal audit activity, or significant staff turnover.

The CCA must submit the Report resulting from the External Assessment on the IAS as a whole to the Secretary of the MoF, other central agencies of the RGoB, and the Chief Executives of all RGoB entities where there is an IAU. The CCA should prepare an action plan to implement the recommendations of the External Assessment report. After the approvals of the Secretary, MoF, the action plan should be communicated to the Chief Executives of all RGoB entities where there are IAUs. The implementation of the action plan should be monitored and reported to the Secretary, MoF.

### 5.3.2 Qualifications and Independence of the Assessors

When selecting an external assessor or assessment team, the CAE discusses with senior management (i.e. Finance Secretary) the qualifications of the potential assessor and several factors related to independence and objectivity, including actual, potential, or perceived conflicts of interest.

Afterward, when reporting the results of the external assessment, the CIA confirms the qualifications and independence of the external assessor or assessment team. Any actual, potential, or perceived conflicts of interest should be reported to senior management.

### 5.3.3 Conclusion of Assessors

External assessment reports include the expression of an opinion or conclusion on the results of the external assessment. In addition to concluding the internal audit activity's overall degree of conformance with the Standards, the report includes an assessment of each standard and/or standard series. The CIA should explain the rating conclusions to senior management (i.e. Finance Secretary), as well as the impact of the results. An example of a rating scale that may be used to show the degree of conformance is:

- ▶ **Generally Conforms:** This is the top rating, which means that an internal audit activity has a charter, policies, and processes, and the execution & results of these are judged to be in conformance with the Standards.
- ▶ **Partially Conforms:** Deficiencies in practice are judged to deviate from the Standards, but these deficiencies do not preclude the internal audit activity from performing its responsibilities.
- ▶ **Does not Conform:** Deficiencies in practice are judged to be so significant, that they seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

### 5.3.4 Corrective Action Plans

In order to ensure better coordination and development of quality internal audit services across the RGoB, CIAs should submit the results of all assessments, both internal and external, to the Finance Secretary for review, so that, if necessary, action may be taken to modify policies issued by the MoF, advocate the allocation of additional resources for the IAUs at the level of central agencies and also formulate and develop more effective staff development and training programmes. The CIA should also submit a copy of the proposed plan of action with respect to the recommendations and proposed action plan.

The CIA should report periodically to the Senior Management on the progress made in the implementation of the action plan. The CCA should submit an annual report to the Finance Secretary containing a summary of significant findings and recommendations resulting from internal assessments completed during the year. The CCA should also identify if any

action is required either by the MoF or any other central agency and propose an action plan for their consideration, approval and implementation.

## 5.4 Periodic Internal Assessment Report Contents

Generally, the overall report on quality assurance and improvement programme shall be communicated by the Chief of CCA. However, it is the assessment teams from CCA or the respective IAUs who shall prepare individual Assessment Reports. The Report may broadly include the following:

- ▶ Executive Summary;
- ▶ Objectives of the assessment task;
- ▶ Scope and Methodology;
- ▶ Data collections and reviews conducted;
- ▶ Key observations under legal considerations, human resource (against levels of Internal Audit Capability Model) consideration, financial consideration (budgetary implications), risk Management considerations (IA policies, procedures and methodologies), and ethical considerations;
- ▶ Incorporation of IAU Chief/Internal Auditor's feedback on the observations;
- ▶ Action Plan from the IAU Chief/Internal Auditors;
- ▶ Conclusions and recommendations for improvements; and
- ▶ Appendices.

A suggestive format of reporting details of Self-Assessment Findings is provided in **Appendix 5**.

## 5.5 External Assessment Report Contents

### 5.5.1 Full External Assessment Report Content

Following is the Full External Assessment Report content:

- ▶ Executive Summary
  - Overview of Internal Audit Activities
  - Objectives
  - Data Collection and Review
  - Sample Selection
  - Assessment
  - Reporting
  - Overall Opinion as to conformance to the standards
  - Internal Audit Capability Model
  - Key Observations
  - Key Recommendations
  - Way Forward
- ▶ Detailed Report
  - Detail report on each Standards on Internal Audit
  - Code of Ethics
- ▶ Annexures

A suggestive format of reporting details for an Independent Validation Team is provided in **Appendix 6**.

### 5.5.2 Self-Assessment with Independent Validation

The report content of periodic Internal Assessment may be adopted by the independent validation team to prepare the QAIP report. However, the report from Independent Validation team may be prepared in the form of a Memorandum or Memo, covering the following contents:

- ▶ Background;
- ▶ Scope and methodology;
- ▶ Key observations under successful audit practices, gaps to conformance, and opportunities for improvements;
- ▶ Conclusions and recommendations for improvement; and
- ▶ Appendices.

A suggestive format of reporting details for an Independent Validation Team is provided in **Appendix 7**.

### 5.6 Review of the QAIP

The QAIP also should be reviewed at least annually and individual sections of the programme should be updated throughout the year as required. The inputs of the review include, but shall not be limited to:

- ▶ Results from quality assessments
- ▶ Customer (user) feedback;
- ▶ Status of resulting action plans;
- ▶ Follow-up actions from previous assessments and/or reviews;
- ▶ Other changes that could impact the quality management system;
- ▶ Recommendations for improvement;
- ▶ New and revised standards, policies, and procedures.

# 6

## **Measuring Internal Audit Effectiveness and Efficiency**

## Chapter 6: Measuring Internal Audit Effectiveness and Efficiency

A general description of effectiveness and efficiency is “the degree (including quality) to which established objectives are achieved.” The same description can be used for internal audit effectiveness and efficiency. Internal audit should establish performance metrics and related measurement criteria appropriate to its environment/organization to measure the degree (including quality) of achievement of objectives for which the internal audit activity is established. Internal audit effectiveness and efficiency should be monitored and assessed periodically as part of the internal audit process.

### 6.1 Internal Audit Stakeholders

Generally, the key stakeholders for the internal audit activity are divided into internal and external.

#### Internal stakeholders may include:

- ▶ A committee such as the audit committee;
- ▶ Senior management;
- ▶ Operations and support management;
- ▶ Internal auditors.

#### External stakeholders may include:

- ▶ Regulatory bodies;
- ▶ External auditors;
- ▶ Third-party vendors;
- ▶ Citizens.

The internal audit activity should identify all relevant stakeholders and their respective interests in the work or support from the internal audit activity and should solicit feedback from each of these stakeholders as appropriate. Specific feedback will provide insight into:

- ▶ The purpose and responsibility of internal auditing and whether that is understood by different levels within the organization.
- ▶ Adequacy of internal audit independence and objectivity.
- ▶ Target deliverables and expectations of the internal audit activity.
- ▶ Current or planned business priorities and correlation of those with the activity’s scope, as appropriate.
- ▶ Current shortcomings, if any, of the internal audit activity.
- ▶ Quality and sufficiency of communication from the activity.
- ▶ Current level of satisfaction, or lack thereof, with the frequency and nature of engagements planned and performed.
- ▶ Current level of satisfaction, or lack thereof, with the internal audit activity’s resources.
- ▶ Changing needs of business, related risks, and ability of internal auditing to provide assurance and consulting services.

### Considerations in identifying relevant stakeholders and their satisfaction include:

- ▶ The extent of regulation of the organization and internal audit activity.
- ▶ Internal auditing's relationship with key internal and external stakeholders and establishment of functional expectations and objectives with these groups.
- ▶ Consideration of the authority and relevance of the stakeholder to the internal audit activity.
- ▶ The activity's internal feedback from key individuals, groups, or standard setters that will help further optimize the activity's quality, scope, and effectiveness.
- ▶ The nature of the organization (e.g., public or privately held and levels of management/management hierarchies).
- ▶ Types of engagements performed by the internal audit activity.
- ▶ Specific stakeholders identified within the internal audit activity's charter.
- ▶ Applicable content of the board's charter.

## 6.2 Measuring Internal Audit Effectiveness and Efficiency

Internal auditing must effectively demonstrate its value as a key component of the organization's governance framework. The audit activity can lead by example with strong, relevant, and reliable performance measures. The internal audit activity may perform additional steps to support the periodic self-assessment, such as analyzing key performance indicators (KPIs). IPPF – Practice Guide for Measuring Internal Audit Effectiveness and Efficiency provides that the Chief Internal Auditor (CIA) needs to establish a certain process to create effective performance measures. Such process shall entail the following:

- ▶ Identifying critical performance categories such as stakeholder satisfaction, internal audit processes, and innovation and capabilities;
- ▶ Identifying performance category strategies and measurements. Strategies should be pursued in compliance with IIA Standards, other applicable professional standards, applicable laws & regulations, and should ensure stakeholder satisfaction; and
- ▶ Routinely monitoring, analyzing, and reporting performance measures.

## 6.3 Performance Measures / Key Performance Indicators

The internal audit activity may also monitor and analyze KPIs related to the efficiency of standard internal audit work practices (e.g., budget-to-actual engagement hours, percentage of the audit plan completed, number of days between fieldwork completion and report issuance, percentage of audit observations implemented, and timeliness of corrections related to audit observations). Other commonly used metrics include the number of certified internal auditors in an IAU, their years of experience in internal auditing, and the number of continuing professional development hours they earned during the year.

## 6.4 Characteristics of Performance Measures: Quantitative vs. Qualitative

Both quantitative and qualitative metrics are important in demonstrating an internal audit activity's performance to key stakeholders, and both can be benchmarked against accepted standards, prior performance, and/or agreed upon expectations.

- ▶ **Quantitative performance metrics** are often based on existing or obtainable data and are easily understood (e.g., percentage of completed vs. planned audits). They

often require less effort to collect and are readily comparable to the same metrics in other organizations.

- ▶ **Qualitative performance metrics** are often based on the collection of unique information through more time intensive methods such as survey research or interviews. They offer a broad view of performance on a range of topics that can provide depth to quantitative metrics.

## 6.5 Types of Performance Measures

Following are the broad key performance indicators:

- ▶ Strategy and Planning Indicators;
- ▶ Areas of Responsibility Indicators;
- ▶ Policy and Procedure Indicators;
- ▶ Resourcing Indicators Agency-wise (Budget and Staffing/Human Resource);
- ▶ Engagement Planning Indicators;
- ▶ Engagement Performance Indicators;
- ▶ Communication Indicators; and
- ▶ Awareness Indicators.

These processes would be executed through assessing the following Internal Audit Key Performance Indicators.

### 6.5.1 Strategy and Planning Indicators

- ▶ Annual review of the internal audit strategy by CCA and Heads of IAUs;
- ▶ Endorsement of the strategy by Chief of CCA;
- ▶ Internal audit risk assessments conducted annually by CCA and Heads of IAUs; and
- ▶ Capability and resource planning undertaken annually by CCA and Heads of IAUs.

Sl. No.	Review Steps	Assessment Outcomes		
		Yes	No	Partial
I	Is there an Internal Audit Strategy for the Internal Audit Service?			
ii	Is Strategy reviewed annually by CCA/IAU Chiefs?			
iii	Do IAUs have their own respective Internal Audit Strategy?			
iv	Has CCA reviewed IAUs' internal audit strategy?			
v	Are risk assessments conducted by IAUs prior to preparation of their annual internal audit plan?			
vi	Has CCA consolidated the overall risk assessments of IAUs prior to preparation of the overall Internal Audit Annual Plan?			
vii	Do the CCA and IAUs possess necessary capability and skills to prepare annual plans and strategies?			

### 6.5.2 Areas of Responsibility Indicators

- ▶ Total number of engagements completed by the Internal Audit Service (include target);
- ▶ Time spent on normal internal audit engagements, i.e., assurance provider role, and other engagements such as theme-based performance auditing, collaboration with Anti-Corruption Commission and other oversight bodies, i.e., consulting/advisory roles (include target);
- ▶ Number of normal internal audit engagements completed by the internal audit service (include target);
- ▶ Number of normal internal audit engagements performed by the internal audit service as a proportion of overall plan (include target); and
- ▶ Time spent on follow-up audits (include target).

Sl. No.	Indicators	Assessment Outcomes		
		Target	Actual	Variance
i	Total number of annual audit engagements during the year			
ii	Total number of normal internal audit completed (Assurance providing activity) during the year			
iii	Total number of theme-based (performance audit) completed (Assurance providing activity) during the year			
iv	Total number of other engagements (Consulting activity for ACC and other oversight bodies) during the year			
v	Total number of other engagements completed (Consulting activity for ACC and other oversight bodies) during the year			
vi	Total number of follow-up audits during the year			
vii	Time spent on follow-up audits during the year			

### 6.5.3 Policy and Procedure Indicators

- ▶ The number of times the Chief of CCA meets with the Heads of agencies and other senior management (include target);
- ▶ The number of times the Chief of CCA meets with the Finance Secretary and the respective Chiefs of IAUs (include target); and
- ▶ Compliance with Internal Audit Charter, Internal Audit Manual, Bhutan Government Internal Audit Standards and other relevant government orders and directives.

Sl. No.	Indicators	Assessment Outcomes		
		Target	Actual	Variance
I	Number of times the CCA Chief meets with the Finance Secretary during the year			
ii	Number of times the CCA Chief meets with the Chiefs of IAUs during the year			
iii	Compliance with relevant Sections of the Charter, Manual and Standards			

### 6.5.4 Resourcing Indicators Auditee Agency-wise

#### i. Budget

- ▶ Delivery of operations in accordance with approved budget;
- ▶ Levels of expenditure (budget versus actual, costs per auditor day, ratio of payroll to other costs, comparison between IAUs, comparison with previous periods);
- ▶ Cost of audit as a proportion of total Internal Audit Services operating costs (include target);
- ▶ Comparison of audit budget to actual audit costs;
- ▶ Ratio of audit payroll costs to other audit costs (include target); and
- ▶ Ratio of outputs (Audit Reports and other services, if any) to inputs (resources utilized).

Sl. No.	Indicators	Assessment Outcomes		
		Budget	Actual	Variance
I	Total expenditure for overall annual audit engagements during the year			
ii	Total expenditure on specific audit assignments (Assurance providing activity) during the year			
iii	Total expenditure on overall theme-based Performance audit assignments during the year			
iv	Total expenditure on specific theme-based Performance audit assignments during the year			
iii	Total expenditure on overall other engagements (Consulting activity for ACC and other oversight bodies) during the year			
iv	Total expenditure on specific other engagements completed (Consulting activity for ACC and other oversight bodies) during the year			
v	Total expenditure of CCA/IAUs during the year			

#### ii. Staffing

- ▶ Capability plan reviewed on an annual basis;
- ▶ Number of auditors as a percentage of total manpower strength of the agency (include target);
- ▶ Average years of audit staff experience (include target);
- ▶ Number of years in the present audit agency (include target);
- ▶ Number of internal auditors by qualifications (include target);
- ▶ Number of professional certifications/percentage of staff certified (include target);
- ▶ Absenteeism rates (include target);
- ▶ Level of internal audit staff turnover (include target);
- ▶ Number of new recruits versus total number of internal auditors (include target);
- ▶ Levels of internal audit staff satisfaction and grievances (include targets, if practical); and
- ▶ Number of internal auditors seconded to other organizations.

Sl. No.	Indicators	Assessment Outcomes		
		Target/Plan	Actual	Variance
i	Total number of auditors as a percentage of total staff strength of the agency			
ii	Average number of years of audit staff experience in CCA/IAUs			
iii	Average number of years of in the present agency (CCA/IAUs)			
iv	Number of internal auditors by different qualifications			
v	Total number of working days of leave availed by staff			
vi	Total number of staff who left the agency for different reasons			
vii	Total number of new recruits during the year			
viii	Total number of internal auditors seconded to other organizations			

#### 6.5.5 Engagement Planning Indicators

- ▶ Engagement client consulted prior to the engagement commencing;
- ▶ Risk assessments conducted of the auditable areas as part of engagement planning;
- ▶ Analytical procedures and CAATs are used in a minimum number of engagements;
- ▶ Total hours used in planning versus scheduled hours used (include target); and
- ▶ Total hours planning versus total engagement hours (include target)

Sl. No.	Indicators	Assessment Outcomes		
		Target	Actual	Variance
I	Total number of annual audit engagements during the year			
Ii	Total number of internal audit (Assurance providing activity) during the year with prior risk-assessments conducted			
iii	Total number of internal audit assignments where analytical procedures and CAATs/AMS are used			
iv	Total number of hours used for planning a specific audit engagement (by audit assignments)			

#### 6.5.6 Engagement Performance Indicators

- ▶ The cause and effect of all findings and observations documented within working papers;
- ▶ Audit Exit Meetings held for all audit engagements;
- ▶ Chiefs of IAUs attending all Exit Meetings;
- ▶ Working papers completed and appropriately reviewed for all engagements;

- ▶ Timeliness of fieldwork;
- ▶ Percentage of audit plan completed (include target);
- ▶ Number of audits completed (include target);
- ▶ Number of audits completed within prescribed time frames (include target);
- ▶ Number of audits completed within the approved budget (include target);
- ▶ Level of engagement client satisfaction (include target); and
- ▶ Actual audit time spent versus budget time (include target)

Sl. No.	Indicators	Assessment Outcomes		
		Target	Actual	Variance
I	Total number of audit exit meetings against total number of audit engagements			
li	Total number of audit exit meetings against total number of audit engagements attended by Chief			
iii	Total number of audits completed			
iv	Total number of audits completed within prescribed time frames			
v	Total number of audits completed within the approved budgets			

#### 6.5.7 Communication Indicators

- ▶ Number of times the Chief of CCA meets with the agency heads and other senior management (include target, if practical);
- ▶ Number of times the CCA meets with IAU Chiefs and internal auditors (include target, practical);
- ▶ Number of times the CCA and IAUs meet with stakeholders;
- ▶ Elapsed time for issue of reports (i.e., from completion of engagement fieldwork to issue of draft report (include target);
- ▶ Elapsed time for finalization of report (i.e., from issue of draft report to issue of final report (include target); and
- ▶ Percentage of recommendations accepted by the auditee.

Sl. No.	Indicators	Assessment Outcomes		
		Target	Actual	Variance
I	Total number of times the Chief of CCA meets with the agency heads and other senior management for annual audit engagements during the year			
li	Total number of times the Chief of CCA meets with the IAU Chiefs and internal auditors during the year			
iii	Total number of times the CCA and IAUs meet with stakeholders during the year			
iv	Total number of reports issued within the prescribed timeframe			
v	Percentage of recommendations accepted by the auditee			

### 6.5.8 Awareness Indicators

- ▶ Level of awareness of internal audit across the organization; and
- ▶ Proportion of internal audit time devoted to advocacy and awareness programme activities (include target).

Sl. No.	Indicators	Assessment Outcomes		
		Target	Actual	Variance
I	Total number of awareness programmes conducted by CCA and IAU Chief during the year			
Ii	Total number of working days devoted by CCA and IAU Chief in awareness programmes during the year			

## 6.6 Monitoring and Reporting of Internal Audit Effectiveness and Efficiency

Internal auditing’s effectiveness and efficiency should be reported to its stakeholders periodically. The CIA should obtain feedback from key stakeholders on internal auditing’s effectiveness and efficiency in reporting (e.g., format, timing, metrics) and make efforts to align reporting to their needs.

### 6.6.1 Contents

What should be reported varies based on stakeholder requirements and the organization’s specific needs. A good practice is to survey key stakeholders to determine their needs and expectations, which then helps define the criteria upon which internal auditing should be measured (Refer **Appendix 3**, Survey Example). **Appendix 8** provides examples of effectiveness and efficiency measurement criteria.

### 6.6.2 Type of reporting

The CIA should evaluate stakeholders to whom reporting is required and customize the reporting package to their individual needs.

### 6.6.3 Frequency

The frequency of reporting should be based on stakeholder needs. Quarterly reporting on internal audit effectiveness and efficiency could be a good starting point.

### 6.6.4 Format

Standards for reporting internal audit effectiveness and efficiency should be similar to standards followed for reporting other audit-related information. There are many formats for reporting, including Word, PowerPoint, dashboards based on automated tools, and e-mail. The chosen format should be tailored to meet stakeholders’ specific needs. For example, reporting to the Finance Secretary might be less frequent and, in less detail, to meet its needs in overseeing the activities of internal auditing. Reporting to management would likely be much more detailed. Refer to **Appendix 9** for a dashboard reporting example.

## 6.7 Internal Audit Capability Model (IA-CM)

The IA-CM is a framework for strengthening or enhancing internal auditing through many small evolutionary steps. These steps have been organized into five progressive capability levels illustrating the stages through which an Internal Audit activity can evolve as it defines, implements, measures, controls, and improves its processes and practices.

Improvements in processes and practices at each stage provide the foundation to progress to the next capability level. Hence, it is a “building block” approach to establish effective internal auditing in an organization. A fundamental premise underlying the IA-CM is that a process or practice cannot be improved if it cannot be repeated.

Therefore, IA-CM shows the steps in progressing from a level of internal auditing typical of a less established organization to the strong, effective, internal audit capabilities generally associated with a more mature and complex organization.

The five progressive capability levels are:

### Level 1. Initial

This level is relevant in small organizations where there is no infrastructure and institutional capability is not developed. With no professional practices established, audits and reviews are conducted on isolated cases and outputs are dependent on the skills of individual auditors involved in the assignment. Hence, there is no sustainable repeatable capabilities and the function is dependent on individual efforts.

### Level 2. Infrastructure

There is some degree of establishment of management and administrative infrastructures, professional practices and processes. For instance, internal audit guidance, processes and procedures are present where audit planning is done based on management priorities. However, execution of auditing task continues to rely on the skills and competence of specific auditors. Therefore, the key challenge for this level is to establish and maintain repeatability of internal audit practice, procedures and capability. In all practicality, this level is relevant to most of the IAUs in different agencies.

### Level 3. Integrated

At this level, the conduct of internal audit activity would indicate general conformance with the Standards where the Internal Audit policies, processes and procedures are defined, documented and integrated with each other and with organization’s infrastructure. Internal audit management and professional practices are uniformly applied across the IA activity and the IA aligns with the organization’s business and the risks it faces. As a result, there will be more focus on team building to enhance capacity of IA activity leveraging on its independence and objectivity.

### Level 4. Managed

By this Level, IA functions are acknowledged as an integral part of the organization’s governance and risk management. Some notable capabilities are:

- IA and stakeholders’ expectations are in alignment;
- IA is recognised as adding value to the organization;
- As a well-managed business unit in the IA, risks are measured and managed quan-

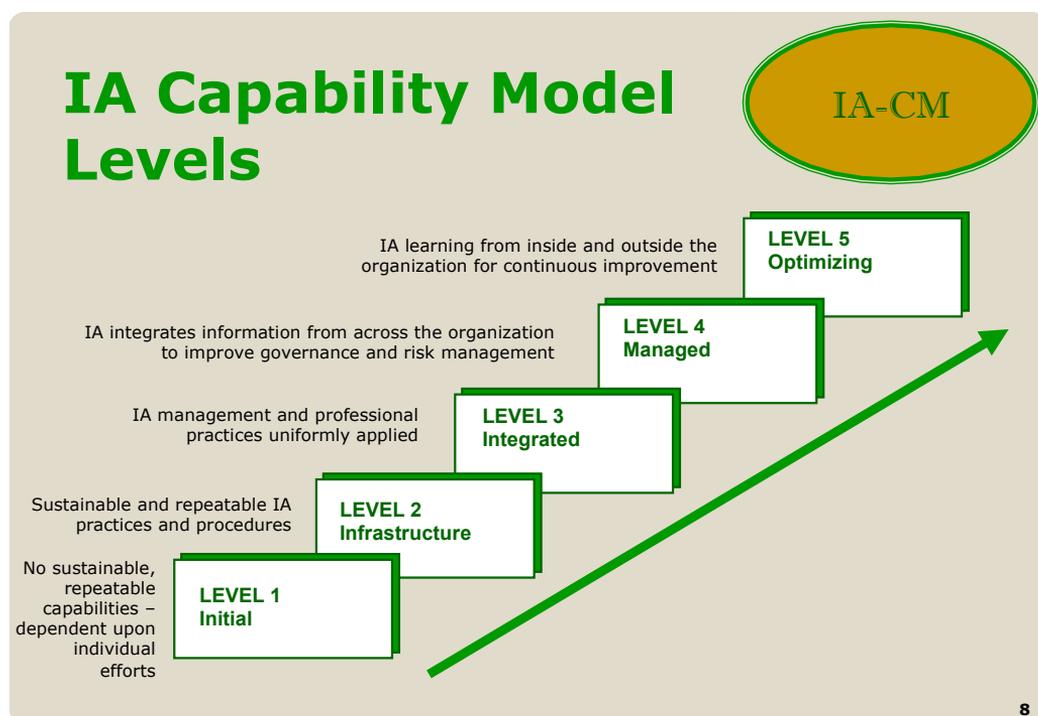
tatively;

- Requisite skills and competencies are in place with a capacity for renewal and knowledge sharing.

### Level 5. Optimizing

Internal audit function is learning from inside and outside the organization for continuous improvement. With top-level professional and specialised skills of internal auditors, IA is considered a critical part of the organization's governance structure and they are fully integrated with overall organizational performance measures.

These five capability levels are expressed as below:



Refer **Appendix 11** for details on Internal Audit Capability Model Matrix and **Appendix 12** for details on Internal Audit Capability Model Levels

The IA-CM provides a tool that a public sector organization can use to:

- ▶ Determine its internal audit requirements according to the nature, complexity, and associated risks of its operations.
- ▶ Assess its existing internal audit capabilities against the requirements it has determined.
- ▶ Identify significant gaps between those requirements and its existing internal audit capabilities and work towards developing the appropriate level of internal audit capability.

The Assessment Report may indicate the Internal Audit Capability Maturity level depending on the overall assessment outcome of the quality assurance and improvement programme.

Refer **Appendix 13** for details on Internal Audit Maturity Assessment.

# 7

## Measuring Internal Audit Effectiveness and Efficiency

## Chapter 7: Checklists and Appendices

### Appendix 1: QAIP Components

#### Section I: Governance

The main elements, along with some of the key objectives, to be assessed in the Governance section include:

▶ **Internal Audit Charter:**

- Internal audit's purpose, authority, and responsibility are formally defined in a charter, consistent with the Definition of Internal Auditing, Code of Ethics, and the Standards.
- The internal audit strategy is aligned with the organizational strategy.
- The internal audit activity's charter provides assurance that the internal audit activity will add value and improve the organization's operations.
- The internal audit activity's charter, mission statement, goals, and similar documents are implemented in an effective manner.

▶ **International Professional Practices Framework (IPPF):**

- The internal audit activity is in conformance with the Definition of Internal Auditing, Code of Ethics, and the Standards.

▶ **Legislation:**

- The internal audit activity is in compliance with other applicable laws, regulations, or policies.

▶ **Independence and Objectivity:**

- The internal audit activity's structure, objectivity, roles and responsibilities, and key governance processes are appropriate for managing the function.
- The internal audit activity is independent and objective in the performance of its work.
- The organizational status of the internal audit activity is sufficient to permit accomplishment of the objectives.
- Broader organizational governance arrangements provide assurance regarding auditor independence and objectivity.

▶ **Risk Impacting the Internal Audit Activity:**

- Risks impacting the internal audit activity have been identified and managed.

▶ **Resourcing:**

- The appropriate level of financial and IT resources is available to the internal audit activity to enable it to achieve its objectives in an efficient and effective manner.

#### Section II: Professional Practice

The main elements, along with some of the key objectives, to be assessed in the Professional Practice section include:

▶ **Roles and Responsibilities:**

- Roles and responsibilities of staff within the internal audit activity are formally documented.
- The internal audit activity has fulfilled its responsibilities in regard to governance, risk management, and control.

- ▶ **Risk-based Audit Planning:**
  - The audit planning process is aligned with the organization's strategic objectives.
  - The perspectives of senior management and the board are considered in audit planning.
  - The process of audit planning ensures that all activities of the organization are considered for audit, subjected to a risk assessment, ranked in order of priority, and that appropriate audit objectives for each audit selected have been established. This may include documentation of an audit universe.
  - An effective annual planning process exists including appropriate processes for the reporting of progress toward achieving the established plan.
- ▶ **Coordination with Other Assurance Providers:**
  - Internal audit activities are coordinated with those of other assurance providers.
- ▶ **Audit Engagement Planning:**
  - Risks relevant to the activity under review are assessed. The engagement objectives reflect the results of the assessment.
  - Appropriate resources are allocated for audit work to identify significant issues.
  - Work programmes to achieve the engagement objectives are developed.
- ▶ **Performing the Engagement:**
  - Engagement processes, including identifying information, analysis, and evaluation, ensure that the steps in the audit programme developed at the end of the planning phase are completed in an effective and efficient manner.
  - Audit techniques, including the use of internal audit automation and computer assisted auditing techniques (CAAT), are used as appropriate to provide assurance that work is performed efficiently and effectively.
  - The evidence gathered substantiates the audit findings and establishes the cause and effect of issues identified as needing improvement.
  - Information acquired when the audit is conducted is described and retained in working papers to clearly document the audit process and identify findings.
  - Audit records are appropriately maintained.
  - Audits are appropriately supervised for professional development and to provide assurance that due professional care is applied.
- ▶ **Proficiency and Due Professional Care:**
  - The internal audit activity collectively possesses or sources the knowledge, skills, and other competencies to perform its responsibilities.
  - Internal auditors display due professional care in the performance of their responsibilities.
  - Continuing professional development is provided to allow internal auditors to enhance their knowledge, skills, and other competencies.
  - Management and leadership development are embedded within the internal audit activity.
- ▶ **Quality Assurance:**
  - A QAIP is in place that covers all aspects of the internal audit activity and the QAIP effectiveness is continuously monitored.
  - Internal audit has processes in place to track and record progress toward established objectives, plans, and budgeted resources.

### Section III: Communication

The main elements, along with some of the key objectives, to be assessed in the Communication section include:

- ▶ **Audit Engagement Reports:**
  - The final report presents the purpose, scope, and significant findings, including the causes and effects, conclusions, recommendations, and the engagement client’s action plans to address the issues outlined.
  - An effective process is in place to ensure that the audit results are presented to the appropriate level of management timely for discussion and response.
  - Reports are provided to and/or are reviewed by senior management and the board.
  - The form and content of audit communications meet stakeholder expectations.
  - The phrase “conducted in accordance with the Standards” is utilized only under appropriate circumstances.
- ▶ **Follow-up Phase:**
  - An appropriate follow-up process to ensure that management actions have been effectively implemented has been established and is being maintained.
- ▶ **Stakeholder Communications:**
  - The internal audit activity’s communication practices inform the board and appropriate stakeholders of work undertaken.
  - A performance management and measurement process are in place to ensure that the effectiveness of the internal audit activity is optimized and recognized.
  - Engagement client satisfaction with the audit process is measured by the internal audit activity, including the level of professionalism demonstrated by the internal auditors and opportunities for improvement.
  - The extent of satisfaction of other stakeholders with the internal audit process and products is measured (this may include a self-assessment questionnaire and a satisfaction survey for engagement clients).
  - The role and services offered by internal audit are understood by stakeholders and considered to be value-added.

### Appendix 2: Checklist on Ongoing Monitoring

**Note:** This checklist is for guidance purpose only. The Internal Auditor of IAU or CIA may take reference from this checklist to develop a detailed checklist specific to Internal Audit activity performed.

Sl. No.	Standards	Tools and/or processes in place
A	<b>2200: Engagement Planning</b> <ul style="list-style-type: none"> <li>▶ <b>2201:</b> Planning Considerations</li> <li>▶ <b>2210:</b> Engagement Objectives</li> <li>▶ <b>2220:</b> Engagement Scope</li> <li>▶ <b>2230:</b> Engagement Resource Allocation</li> <li>▶ <b>2240:</b> Engagement Work Programme</li> </ul>	Internal Audit Department implements the standard through preparation of the Opening Letter, Planning Memorandum, & Audit Programme

Standard 2200 series shall generally require the QAIP to assess if the internal auditors have followed the internal auditing guidelines, manuals and frameworks. The standard also requires the programme to assess if the guidelines, manuals and frameworks are exhaustive and updated regularly. For this, the following sample areas may be assessed to fulfill the requirements of the above Standard 2200 series:

S.No.	Questions to Consider	Response
1	Are individual internal audit engagements adequately resourced and properly monitored?	
2	Whether planning is done following the risk-based approach?	
3	Does the plan align with organizational risk?	
4	Are the internal auditors familiar with the processes under review?	
5	Will the audit objectives allow auditors to provide assurance?	
6	Is the scope sufficient to satisfy the audit objectives?	
7	Will the audit programme allow internal auditors to achieve the audit objectives and reach a conclusion?	
8	Have auditees been informed about the planned audit?	
9	Were the objectives clearly explained to auditees during the kick-off meeting?	
10	Are planning approved by head of agency?	
S.No.	Standards	Tools and/or processes in place
B	<b>2300: Performing the Engagement</b> <ul style="list-style-type: none"> <li>▶ 2310: Identifying Information</li> <li>▶ 2320: Analysis and Evaluation</li> <li>▶ 2330: Documenting Information</li> <li>▶ 2340: Engagement Supervision</li> </ul>	Internal Audit Department implements the standards through performing information request, data analysis, risk and control assessment, execution of audit programme, working papers, signoffs, and saving engagement records.
Standard 2300 series require that Internal auditors identify, analyze, evaluate, and document sufficient information during the audit engagement. For this, the programme shall assess the following sample questions.		
S.No.	Questions to Consider	Response
1	Are all executed steps properly documented?	
2	Is the prescribed methodology being applied and are appropriate audit techniques being used?	
3	Have the internal auditors properly assessed auditees' procedures with regard to the processes under review?	
4	In the absence of auditees' procedures, have the internal auditors discussed with the auditees the assessment criteria that should be used?	
5	Is the obtained evidence sufficient to express an opinion?	
6	Do internal auditors differentiate between critical and less critical findings?	
7	Were findings immediately communicated and discussed with the auditees?	
8	Has the work programme been carried out as intended?	
9	Are changes to audit objectives, scope and work programme justified and properly approved?	

S.No.	Standards	Tools and/or processes in place
C	<b>2400: Communicating Results</b> <ul style="list-style-type: none"> <li>▶ 2410: Criteria for Communicating</li> <li>▶ 2420: Quality of Communications</li> <li>▶ 2421: Errors and Omissions</li> <li>▶ 2430: Use of “Conducted in conformance with the IIA standards”</li> <li>▶ 2431: Engagement Disclosure of Non- Conformance</li> <li>▶ 2440: Disseminating Results</li> <li>▶ 2450: Overall Opinion</li> </ul>	Results of Audit Engagement are communicated to the audit client during both fieldwork and reporting stages. Internal audit departments report, and communication processes are designed to conform with standards.

Standard 2400 series require the internal auditors to communicate the results of engagements with certain criteria that ensures requisite quality and without errors and omissions. For this, the following sample questions shall be assessed.

S.No.	Questions to Consider	Response
1	Were the findings and final conclusion presented to the auditees at a closing meeting?	
2	Do the recommendations address the root cause of the findings?	
3	Are the recommendations practical?	
4	Does the audit achieve its objectives of being able to issue negative or positive assurance?	
5	Has a draft report been sent to auditees, allowing them to review and comment on the findings and recommendations?	
6	Have the internal auditors incorporated the auditees' comments?	
7	Do internal auditors agree on the action plan?	
8	Is the audit report accurate, objective, clear, concise, constructive and timely?	
9	Has the audit report been signed according to the relevant policies?	
10	Have audit objectives been achieved within allocated resource budgets and by agreed target dates, as much as possible?	

S.No.	Standards	Tools and/or processes in place
D	<b>2500: Monitoring Progress</b>	CIA must maintain a system to monitor disposition of results communicated to Management. This can be achieved by the “Quarterly Reports” as a follow-up process to monitor and ensure that management actions have been implemented.

Standard 2500 requires the chief audit executive to establish and maintain a system to monitor the disposition of results communicated to management so that the audit recommendations are effectively implemented by the auditee agency. For this, the QAIP shall assess the following sample questions.

S.No.	Questions to Consider	Response
1	Have the internal auditors monitored whether the deadlines of the action plan were respected?	
2	Have the internal auditors assessed whether a follow-up audit may be needed?	
3	Have follow-up activities been duly executed by the internal auditors?	

**Appendix 3: Example of Stakeholder Survey sent after Internal Audit is completed**

**Sample questions on quality criteria for an audited entity survey**

**Note:** This checklist is for guidance purpose only. The Internal Auditor of IAU or CIA may take reference from this checklist to develop a detailed checklist specific to Internal activity performed.

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



Re: Internal Audit Feedback Survey

Dear XXXXX:

We recently performed an internal audit in your area. To continue to improve the level of service we provide our customers, we would appreciate your candid feedback on the attached Internal Audit Feedback Survey.

We value the opinions of our clients and stakeholders and will use your feedback to continually evaluate the quality of our audit services. Please send the completed survey back to me by (date).

If you have any questions, please do not hesitate to call me at (phone number).

**Sincerely,**

**CIA / Internal Auditor of IAU**

Internal Audit Feedback Survey

AUDIT REPORT TITLE: \_\_\_\_\_

Audit Unit / Manager: \_\_\_\_\_

The rating scale provided below is from 4 (Very Satisfied), 3 (Satisfied), 2 (Dissatisfied) and 1 (very Dissatisfied).

S. No.	Questions	4 Very Satisfied	3 Satisfied	2 Dissatisfied	1 Very Dissatisfied
1	How satisfied are you that adequate notice was given of the timing and duration of the audit?				
2	To what extent are you satisfied that the auditors had sufficient knowledge of the organization activity/process?				
3	How satisfied are you that the draft report was received within an acceptable timeframe?				

4	How satisfied are you that the recommendations provided practical and constructive solutions to the issues identified?				
5	How satisfied are you that implementation of recommendations will contribute to improvements in your unit's risk management, control and governance processes?				
6	If you used the consultancy services provided by the internal audit unit, were you satisfied with the input provided?				

### Appendix 4: Checklist on Periodic Self-Assessment

**Note:** This checklist is for guidance purpose only. The Internal Auditor of IAU or CIA may take reference from this checklist to develop a detailed checklist specific to Internal activity performed.

S. No.	Standards	Tools and/or processes in place
<b>A</b>	<b>1000: Purpose, Authority and Responsibility</b> <ul style="list-style-type: none"> <li>▶ <b>1010:</b> Definition of internal Auditing</li> <li>▶ <b>1020:</b> Code of Ethics</li> </ul>	<p>The internal audit service charter should state clearly the purpose, mission, vision, authority, responsibility, etc. of the internal audit department.</p> <p>The internal audit services charter should state clearly the Institute of Internal Auditors (IIA) definition.</p> <p>The internal audit services charter should state clearly the Institute of Internal Auditors (IIA) Code of Ethics which highlights major principles such as Integrity, Objectivity, Confidentiality and Competency.</p>

Standard 1000 outlines the purpose, mission, vision, authority, responsibility, etc. of the internal audit department. It recognizes Mandatory Guidance in the IA Charter.

S. No.	Questions to Consider	Response
1	Is the role of internal audit clearly defined in a document (a law, an act or a charter)?	
2	Does this document also explain that internal auditors should not be responsible for any operational activities?	
3	Does this document provide internal auditors with unlimited access to information, assets and people?	
4	Does this document describe internal auditors' reporting line(s)?	
5	Do auditees know about this document?	
6	Does this document cover the delivery of both assurance and consulting services by internal auditors?	
7	Does this document refer to national or international internal auditing standards?	
8	Does this document refer to a code of conduct for internal auditors?	

S. No.	Standards	Tools and/or processes in place
<b>B</b>	<b>1100: Independence and Objectivity</b> <ul style="list-style-type: none"> <li>▶ <b>1110:</b> Organizational Independence</li> <li>▶ <b>1111:</b> Direct Interaction with the Board</li> <li>▶ <b>1120:</b> Individual Objectivity</li> </ul>	IA reports to head of agency

Standard 1100 stresses on independence and objectivity of the Internal Auditor. The aspects of qualification and competence of the internal audit is discussed in the above standard.

S. No.	Questions to Consider	Response
1	Does the document grant independence to internal auditors?	
2	What measures are in place to guarantee internal auditors' objectivity?	
3	Are internal auditors independent on paper and in reality?	
4	Do internal auditors experience difficulties getting their audit plans, budget and headcount approved?	
5	Is the head of internal audit (HIA) appointed solely on experience, skills and competence?	
6	What is the process for dismissal of the HIA, including who has authority to remove him/her?	
7	Is there an escalation process in case internal auditors feel their independence is threatened?	
8	Are internal auditors allowed to report on actual findings, that is, can they tell things as they are?	
9	Can the CIA help internal auditors in cases where they feel threatened by senior management?	
10	Are internal auditors invited to participate (as observers) in senior management meetings?	
11	Is there a process in place to deal with conflicts of interest?	
12	Are internal auditors responsible for any operational activities that in principle should not be part of internal audit's responsibilities?	
13	Do internal auditors regularly design procedures for the auditees?	
14	Is there a process in place to disclose any potential impairment to independence and objectivity?	
15	Do internal auditors experience any significant scope limitation(s)?	
16	Is there a process in place to deal with gifts received from auditees or others?	
17	Do internal auditors respect a cooling-off period for internal auditors who transfer from operational units?	
18	Do internal auditors respect a cooling-off period for internal auditors who transfer to operational units?	
19	In situations where, internal auditors are responsible for operational activities, does a third party oversee these activities?	

S. No.	Standards	Tools and/or processes in place
C	<b>1200: Proficiency and Due Professional Care</b> <ul style="list-style-type: none"> <li>▶ <b>1210:</b> Proficiency</li> <li>▶ <b>1220:</b> Due Professional Care</li> <li>▶ <b>1230:</b> Continuing Professional Development</li> </ul>	<ul style="list-style-type: none"> <li>▶ IA collectively possess the skills, knowledge and competence needed to perform responsibilities.</li> <li>▶ Auditors should apply due professional care.</li> <li>▶ IA should constantly encourage auditors to maintain technical competencies through continuous education.</li> </ul>

Standard 1200 describes the Proficiency and Due Professional Care required to be taken care by the Internal Auditor while conducting Internal Audit.

S. No.	Questions to Consider	Response
1	Do internal auditors collectively possess the necessary knowledge and skills to fulfill the role of internal auditing within their organization?	
2	Are internal auditors capable of applying the prescribed audit methodology?	
3	Are internal auditors attentive to fraud indicators (red flags)?	
4	Do internal auditors have sufficient skills to audit the information technology environment?	
5	Do internal auditors use IT tools and techniques to perform internal audit engagements?	
6	Do internal auditors have the skills to deal with (difficult) people?	
7	Do internal auditors possess the necessary soft skills?	
8	Do internal auditors possess a professional certification and do they have access to continuous professional development programmes for internal auditors?	
9	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?	
10	Are audit objectives focused on the main risk(s) to the organization?	

S. No.	Standards	Tools and/or processes in place
D	<b>1300: Quality Assurance and Improvement Programme (QAIP)</b> <ul style="list-style-type: none"> <li>▶ <b>1310:</b> Requirements of QAIP</li> <li>▶ <b>1311:</b> Internal Assessment</li> <li>▶ <b>1312:</b> External Assessment</li> <li>▶ <b>1320:</b> Reporting on QAIP</li> </ul>	The internal audit service ensures quality of the audit activity through conducting internal ongoing assessments, which is imbedded into the daily internal audit activities/procedures, and periodic assessments of conformance with internal audit definition, code of ethics and standards. Moreover, the department undertakes external assessments once every five years.

Standard 1300 outlines that the CIA must develop and maintain QAIP that covers all aspects of the internal audit activity.		
S. No.	Questions to Consider	Response
1	Is there a quality assurance and improvement programme in place?	
2	Is the programme established in the audit policies and procedures?	
3	Does the programme include ongoing monitoring, periodic internal quality self-assessments and periodic external quality assessments?	
4	Are all aspects of the internal audit unit (role, risk assessment, planning, execution of engagements, reporting and training) covered in the programme?	
5	Do meaningful key performance indicators exist in order to measure the performance of the internal audit activity?	
6	Are the results of the quality assurance and improvement programme communicated regularly to senior management?	
7	Is feedback periodically solicited from auditees and senior management?	
8	Does the internal audit unit periodically benchmark itself against peers?	
9	Is there evidence that shows that the internal audit function adds value to the organization?	
10	Is it stated that internal auditing activities conform to international standards? If yes, is this statement supported by internal and external quality assessments?	
11	Are instances of non-conformance with international standards disclosed?	
S. No.	Standards	Tools and/or processes in place
E	<b>2000: Managing the Internal Audit Activity</b> <ul style="list-style-type: none"> <li>▶ <b>2010:</b> Planning</li> <li>▶ <b>2020:</b> Communication and Approval</li> <li>▶ <b>2030:</b> Resource Management</li> <li>▶ <b>2040:</b> Policies and Procedures</li> <li>▶ <b>2050:</b> Coordination &amp; Reliance</li> <li>▶ <b>2060:</b> Reporting to Senior Management and the Board</li> <li>▶ <b>2070:</b> External Service Provider and Organizational Responsibility for Internal Auditing</li> </ul>	<ul style="list-style-type: none"> <li>▶ IA establish a Risk Based IA plan and communicate it to the CCA for information and approval for Secretary</li> <li>▶ IA of IAU ensure IA resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. (IA annual plan – team allocation)</li> <li>▶ P&amp;P are in place to conduct the audit</li> <li>▶ IA periodically reports to CIA.</li> <li>▶ Internal Audit Department clearly states the relation with External Auditors.</li> </ul>
Standard 2000 outlines managing the internal audit activity. It details the task required to be done before the start of internal audit.		

S. No.	Questions to Consider	Response
1	Is the audit universe known and documented by the internal audit unit? Is the document updated periodically to reflect changes in the audit universe?	
2	Is a risk-based plan established for internal audit activities?	
3	Does the risk-based plan take into consideration any risk management framework that exists within the organization?	
4	Does the internal audit unit solicit input from senior management during the development of the internal audit plan?	
5	Are adequate risk factors used for risk assessments?	
6	Does the internal audit unit identify the key controls in the organization?	
7	Are all areas of the organization given appropriate audit coverage?	
8	Is the impact of resource limitations communicated to senior management by the internal audit unit?	
9	Is the audit plan periodically reviewed?	
10	Does the internal audit unit have appropriate and sufficient audit resources to conduct its activities?	
11	Does the internal audit unit make use of 'guest' auditors from other parts of the organization?	
12	Are adequate audit policies and procedures in place, and are they updated on a regular basis?	
13	Does the internal audit unit coordinate its audit activities with other internal assurance providers?	
14	Does the internal audit unit coordinate its audit activities with the Supreme Audit Institution (SAI)?	
15	Do the external auditors rely on the work of internal auditors?	
16	Are internal auditors involved in the development and maintenance of a risk register or assurance map?	
17	Do internal auditors also audit the "second lines of defense" within the organization?	
18	Does the internal audit function periodically report to senior management on its activities?	
19	Do internal auditors rely on the work of other assurance providers?	

S. No.	Standards	Tools and/or processes in place
F	<b>2100: Nature of Work</b> <ul style="list-style-type: none"> <li>▶ <b>2110:</b> Governance</li> <li>▶ <b>2120:</b> Risk Management</li> <li>▶ <b>2130:</b> Control</li> </ul>	The internal audit activity continuously: <ul style="list-style-type: none"> <li>▶ Assesses and make recommendations to improve governance in the organization.</li> <li>▶ Assists in identifying, evaluating, and implementing risk management methodologies and controls to address risks.</li> <li>▶ Evaluates the effectiveness and efficiency of controls.</li> </ul>

Standard 2100 outlines the nature of work which includes governance, risk management and control required to be complied during the conduct of internal audit.

S. No.	Questions to Consider	Response
1	Does the internal audit unit assess the design and effectiveness of ethics programmes within the organization?	
2	Does the internal audit unit assess how risk ownership and accountability are established within the organization?	
3	Does the internal audit unit provide assurance on the risk management process?	
4	Do internal auditors assess the potential for fraud?	
5	Does the internal audit unit assess the effectiveness and the efficiency of the internal control system?	
6	Do internal auditors provide an opinion on the adequacy and the effectiveness of the internal control system?	
7	Do internal auditors assess the reliability and the integrity of information?	
8	Does the internal audit unit assess the respect for privacy of information?	

S. No.	Standards	Tools and/or processes in place
G	<b>2600: Communicating the Acceptance of Risk</b>	<ul style="list-style-type: none"> <li>▶ When the CIA become in disagreement with the auditee regarding certain issues, the CIA will escalate the matter through the audit report to the audit committee.</li> </ul>

Standard 2600 outlines the provision of communicating the risk to the higher management.

S. No.	Questions to Consider	Response
1	Is there an escalation process in case management is accepting a risk level, which is above the risk appetite of the organization?	

## Appendix 5: Self-Assessment QAIP Report

### Table of Contents

xxxx

### Executive Summary

Xxxxx

### Objectives/Purpose

Xxxx

### Scope and methodology

Xxx

### Data Collection and reviews

Xxx

### Assessment Opinion

#### Main observations

- i. Legal consideration (conforming legislations and professional Standards);
- ii. Human resource consideration (capability of Internal Auditors);
- iii. Financial considerations (budgetary implications);
- iv. Risk management considerations (Internal Audit policies, procedures and methodologies); and
- v. Ethical considerations (Internal Audit Charter, Code of Ethics).

#### Successful Internal Audit Attributes

xxx

#### Conformance

- i. IIA's/BGIAS' Attribute Standards Conformity;
- ii. IIA's/BGIAS' Performance Standards Conformity; and
- iii. IIA's/BGIAS' Code of Ethics.

#### Incorporation of IAU Chief/Internal Auditor's feedback on the observations

xxxx

#### Action Plan from the IAU Chief/Internal Auditors

xxx

#### Conclusions and recommendations for improvements

xxx

#### Appendices

xxxx

## Appendix 6: Full External Assessment Reporting Template

### External Quality Assessment report

**Internal Audit Services  
Central Coordinating Agency  
Ministry of Finance  
Royal Government of Bhutan  
("RGoB")  
Month/Year**

#### 1. EXECUTIVE SUMMARY

XXXX

#### 2. OVERVIEW OF INTERNAL AUDIT ACTIVITIES

XXXXX

#### 3. OBJECTIVES

XXX

#### 4. DATA COLLECTION AND REVIEW

- ▶ Details of Survey conducted
- ▶ Details of Interviews conducted
- ▶ Policy and practices review
- ▶ Audit work paper review

#### 5. SAMPLES SELECTION

Sample selection method and number of sample selected including basis of selection.

## 6. ASSESSMENT

IPPF – we compared RGoB’s present practices for conformance with the IPPF Standards and framework as well as its Bhutan Government Internal Audit Standards, the Internal Audit Manual, Internal Audit Charter and Code of Ethics.

## 7. REPORTING

Final report – we have summarised the results of our assessment, including detailed observations and recommendations.

## 8. OVERALL OPINION AS TO CONFORMANCE TO THE STANDARDS

The overall assessment is that the CCA “**Conforms**” to the Standards. Please refer to **Attachment XX and XX** for the Standard Conformance Evaluation Summary (Table), Standard Conformance Evaluation Summary and **Attachment XX** for the Standard Ratings Definition. The individual assessment is provided as follow:

Standards	Generally Conforms	Partially Conforms	Does Not Conform
Attribute Standards			
Performance Standards			
Code of Ethics			

## 9. INTERNAL AUDIT CAPABILITY MODEL

Report on IA capability.

## 10. KEY OBSERVATIONS

### 10.1. Resource Management

xxxx

### Quality Assurance and Improvement Programme

xxx

### Annual Audit Planning

xxxx

### Performance of Audit Engagements

xxx

## 11. KEY RECOMMENDATIONS

### 11.1. Resource Management

xxxx

### 11.2. Quality Assurance and Improvement Programme

xxxx

### 11.3. Annual Audit Planning

XXXX

### 11.4. Enhancing the Performance of Audit Engagements

XXXX

## 12. WAY FORWARD

Some key next steps for consideration are in the following sequence:

xxx

### 13. Quality Assessment Team Members:

- (i) xxx
- (ii) xxx

## 14. DETAIL REPORT

XXXX

Standard	Standard Requirement	Observation	Opportunities for Continuous Improvement	Chief Internal Auditor Response
Standard 1000: Purpose, Authority and Responsibility				
Standard 1010: Recognizing Mandatory Guidance in the Internal Audit Charter				
Standard 1100: Independence and Objectivity				
Standard 1110: Organizational Independence				
Standard 1111: Direct Interaction with the Board				
Standard 1112: Chief Audit Executive Roles Beyond Internal Auditing				
Standard 1120: Individual Objectivity				
Standard 1130: Impairment to Independence or Objectivity				
Standard 1200: Proficiency and Due Professional Care				
Standard 1210: Proficiency				
Standard 1220: Due Professional Care				
Standard 1230: Continuing Professional Development				
Standard 1300: Quality Assurance and Improvement Programme ("QAIP") Standard 1310: Requirements of the Quality Assurance and Improvement Programme				

Standard 1311: Internal Assessments				
Standard 1312: External Assessments				
Standard 1320: Reporting on the Quality Assurance and Improvement Programme				
Standard 1321: Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”				
Standard 1322: Disclosure of Non-conformance				
Standard 2000: Managing the Internal Audit Activity				
Standard 2010: Planning				
Standard 2020: Communication and Approval				
Standard 2030: Resource Management				
Standard 2040: Policies and Procedures				
Standard 2050: Coordination and Reliance				
Standard 2060: Reporting to Senior Management and the Board				
Standard 2070: External Service Provider and Organizational Responsibility for Internal Auditing				
Standard 2100: Nature of Work				
Standard 2110: Governance				
Standard 2120: Risk Management				
Standard 2200: Engagement Planning				
Standard 2201: Planning Considerations				
Standard 2210: Engagement Objectives				
Standard 2220: Engagement Scope				
Standard 2230: Engagement Resource Allocation				
Standard 2240: Engagement Work Programme				
Standard 2300: Performing the Engagement				
Standard 2310: Identifying Information				
Standard 2320: Analysis and Evaluation				
Standard 2330: Documenting Information				

Standard 2340: Engagement Supervision				
Standard 2400: Communicating Results				
Standard 2410: Criteria for Communicating				
Standard 2420: Quality Communications				
Standard 2421: Errors and Omissions				
Standard 2430: Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”				
Standard 2431: Engagement Disclosure of Non-conformance				
Standard 2440: Disseminating Results				
Standard 2450: Overall Opinions				
Standard 2500: Monitoring Progress				
Standard 2600: Communicating the Acceptance of Risks				
Code of Ethics				

## 15. Annexure

Annexure XX:

Annexure XX:

**Appendix 7: Self-Assessment with Independent Validation QAIP Report**

<b>Table of Contents</b>
xxx
<b>Background;</b>
xxx
<b>Scope and methodology;</b>
Xxxx
<b>Key observations:</b>
<ul style="list-style-type: none"> <li>I. Successful Audit Practices;</li> <li>II. Gaps to Conformance; and</li> <li>III. Opportunities for improvements;</li> </ul>
<b>Conclusions and recommendations for improvement</b>
xxx
<b>Appendices.</b>
xxxx

**IIA's/BGIAS' Attribute Standards Conformity**

Standards Observation	Conformity	Opportunities for Improvement	IAU's Response	IAU's Action Plan
1000 – Purpose, Authority, and Responsibility				
1100 – Independence and Objectivity				
1200 – Proficiency and Due Professional Care				
1300 – Quality Assurance and Improvement Programme				

**IIA's/BGIAS' Performance Standards Conformity**

Standards Observation	Conformity	Opportunities for Improvement	IAU's Response	IAU's Action Plan
2000 – Managing the Internal Audit Activity				
2100 – Nature of Work				
2200 – Engagement Planning				
2300 – Performing the Engagement				
2400 – Communicating Results				
2500 – Monitoring Progress				
2600 – Communicating the Acceptance of Risks				

## Code of Ethics Conformity

The purpose of the Code of Ethics for Internal Auditors, Royal Government of Bhutan, is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, as it is founded on the trust placed in its objective assurance about risk management, control and governance. The Code of Ethics extends beyond the Definition of Internal Auditing to include two essential components:

- *Principles* that are relevant to the profession and practice of internal auditing.
- *Rules of Conduct* that describe behavior norms expected of internal auditors. These rules are an aid in interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors. Internal Auditors are expected to apply and uphold the principles.

### Principles:

#### 1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

#### 2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

#### 3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

#### 4. Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

### Rules of Conduct:

Rules of Conduct describes above principles in greater detail with the behavioral norms expected of internal auditors. The Rules of Conduct are an aid to interpreting the principles into practical applications and are intended to guide the ethical conduct of internal auditors.

***The Internal Audit Unit, Ministry of ..... .. generally conforms to the Code of Ethics which includes the two essential components – Principles and Rules of Conduct.***

**Appendix 8: Examples of Internal Audit Effectiveness and Efficiency Metrics**

**Examples of Internal Audit Effectiveness and Efficiency Metrics**

Performance management category	Measures of efficiency	Measures of effectiveness	Measures of efficiency and effectiveness
Basic Measures	<ul style="list-style-type: none"> <li>▶ Number of audits scheduled.</li> <li>▶ Number of audits completed</li> <li>▶ Timeliness of performance feedback.</li> <li>▶ Staff utilization – direct vs. indirect time.</li> <li>▶ Completed audits per auditor.</li> <li>▶ Actual hours vs budgeted hours.</li> <li>▶ Audit report cycle time: elapsed time from opening conference to fieldwork completion and elapse time from fieldwork completion to final report.</li> <li>▶ Number of internal audit reports issued vs. planned internal audits.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Client satisfaction ratings.</li> <li>▶ Staff satisfaction ratings.</li> <li>▶ Number of significant audit findings.</li> <li>▶ Percent of recommendations implemented.</li> <li>▶ Number of repeat findings.</li> <li>▶ Number of open audits findings past planned corrective action date.</li> <li>▶ Number of unsatisfactory internal audit opinions.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Training / CPE hours.</li> <li>▶ Staff turnover / retention.</li> </ul>
Service to Stakeholders	<ul style="list-style-type: none"> <li>▶ Responsiveness to special requests.</li> <li>▶ Average response time to management request.</li> <li>▶ Number of control self-assessment (CSA) sessions conducted.</li> <li>▶ Number of auditors per 1,000 employees.</li> <li>▶ Number of auditors per \$1 million of revenue/\$1 million of assets.</li> <li>▶ Completed vs. planned audits.</li> <li>▶ Cost savings as a percentage of department budget.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Delivery of high-quality service.</li> <li>▶ Management of auditee expectations.</li> <li>▶ Building strong relationships.</li> <li>▶ Number of management requests.</li> <li>▶ Number of committees and task forces audit is involved in.</li> <li>▶ Amount of identified cost savings and percent of recoveries</li> </ul>	<ul style="list-style-type: none"> <li>▶ Client survey scores (see example survey letter in <b>Appendix 3</b>).</li> <li>▶ Senior management survey scores.</li> <li>▶ Audit committee survey scores.</li> <li>▶ Number of positive and negative feedback about audits/ auditors.</li> </ul>
Knowledge of business		<ul style="list-style-type: none"> <li>▶ Applying that knowledge to help solve complex client issues</li> <li>▶ Development of deep industry knowledge</li> <li>▶ Developing and contributing best practices, emerging issues, and industry trends</li> <li>▶ Best practices benchmarked</li> </ul>	

<p>Technical Development</p>		<ul style="list-style-type: none"> <li>▶ Development of relevant technical knowledge</li> <li>▶ Internal auditing</li> <li>▶ Accounting</li> <li>▶ Regulator</li> <li>▶ Business</li> <li>▶ Compliance with audit methodology set.</li> </ul>	
<p>Innovation</p>	<ul style="list-style-type: none"> <li>▶ Use of technology in audits.</li> <li>▶ Creativity and efficiency.</li> <li>▶ Number of internal audit improvement teams and time spent (by team).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Enhanced audit process.</li> <li>▶ Number of Best practices identified and communicated within an organization or internal audit activity.</li> <li>▶ Number of hours spent in industry or other specialized training.</li> <li>▶ Involvement in professional organizations (e.g. IIA, auditor roundtables).</li> <li>▶ Thought leadership.</li> </ul>	
<p>People Development</p>	<ul style="list-style-type: none"> <li>▶ Number of coaching sessions in a year.</li> <li>▶ Tracking of development plan (plan vs. actual).</li> <li>▶ Achievement of minimum training hours required.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Average months in position.</li> <li>▶ Number of staff rotations in and out of the internal audit activity.</li> <li>▶ Average years of audit experience.</li> <li>▶ Percent of auditors with professional certifications.</li> <li>▶ Percent of auditors with advanced degrees.</li> <li>▶ Training hours per auditor.</li> <li>▶ Auditor turnover.</li> <li>▶ Number/percent of auditors transferred promoted to other functions in the organization vs. the number that left the company.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Assistance in recruiting by team members (participation in review of resume, interview etc.).</li> </ul>

**Appendix 9: Example of Reporting Internal Audit Effectiveness and Efficiency Dashboard**

Quantitative Measures						
Area	Measure	Target	Actual			
			Q1	Q2	Q3	Q4
Budget management.	Budget vs. actual					
Delivering the annual audit plan	Percent of audit plan delivered during the year					
Customer Services						
Area	Measure	Target	Actual			
			Q1	Q2	Q3	Q4
Number/types of ad-hoc requests received for non-routine work.	Record to be kept of ad-hoc non-routine requests by the management					
Staff Satisfaction and Development						
Area	Measure	Target	Actual			
			Q1	Q2	Q3	Q4
Staff training hours / year.	Actual training hours vs. budget					
Staffing plan (hiring).	Plan vs. actual hired					
Audit Delivery / Efficiency						
Area	Measure	Target	Actual			
			Q1	Q2	Q3	Q4
Audit reviews completed within budget and to agreed target date.	Budget vs. actual					
Revise the audit methodology.	Plan vs. actual revision					
Relation with Third Party						
Area	Measure	Target	Actual			
			Q1	Q2	Q3	Q4
Use of Subject Matter Experts	Use of Subject Matter Experts for Specialized work					

**Appendix 10: Guidance on Internal Audit Self-Assessment Methodology**

<b>Element: Risk-Based Audit Planning</b>		
<b>Objective: An effective annual planning process exists including appropriate processes for the reporting of progress toward the established plan.</b>		
<b>Draft Criteria</b>	<b>Preliminary Methodology</b>	<b>IIA Standard</b>
<p>A process is in place and is used to develop the annual internal audit plan to verify that:</p> <ul style="list-style-type: none"> <li>▶ All organizational components, programmes, and activities were considered.</li> <li>▶ Senior management was involved in the process.</li> <li>▶ The plan was prepared timely and distributed to the appropriate levels of management.</li> </ul>	<p>In consultation with internal audit, determine the audit plan development process used (obtain any process documentation available).</p> <p>Review any minutes or follow-up correspondence/ confirmations of planning process meetings and verify:</p> <ul style="list-style-type: none"> <li>▶ Attendance by all parties to the process.</li> <li>▶ Input was requested from all stakeholders</li> <li>▶ The plan from the previous fiscal year was reviewed to identify any engagements not yet completed for consideration for the current year’s plan.</li> <li>▶ A formal risk analysis and assessment of all suggested projects was performed and documented.</li> <li>▶ Organizational components, programmes, and activities were considered.</li> <li>▶ A draft annual plan was presented to senior management and the board and subsequently approved.</li> <li>▶ The distribution list for the draft annual plan as well as the approved audit plan.</li> </ul>	2010
<p>A process for selection of engagements to be conducted is documented and includes criteria such as:</p> <ul style="list-style-type: none"> <li>▶ Past audit coverage and results.</li> <li>▶ Materiality</li> <li>▶ Significance to management.</li> <li>▶ Risk (based on a standardized methodology)</li> <li>▶ Auditability</li> <li>▶ Engagements not completed from the previous year’s plan</li> <li>▶ Organizational priorities</li> <li>▶ Opportunities for improvement</li> <li>▶ Legislative or other mandated obligations</li> </ul>	<ul style="list-style-type: none"> <li>▶ Review last year’s plan and results.</li> <li>▶ Review annual report on progress made from previous fiscal year.</li> <li>▶ Review documented risk analysis and assessment to determine criteria applied.</li> <li>▶ Confirm that justification was documented for engagements cancelled or deferred that were either brought forward from last year’s plan or were proposed in the current year process.</li> <li>▶ Review approved annual plan to determine engagements to be conducted.</li> <li>▶ Review the process used to ensure that a formal risk</li> <li>▶ Analysis and assessment of all suggested projects was performed and documented.</li> </ul>	2010 2050
<p>For each audit selected for the plan, the plan provides:</p> <ul style="list-style-type: none"> <li>▶ A clear indication of the objective and scope.</li> <li>▶ An estimate of resource requirements, in terms of direct time, to conduct the engagements.</li> <li>▶ The number of auditors and the skills required.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Review the annual plan to confirm that all required details have been incorporated.</li> <li>▶ Compare the details approved to the relevant details on a sample of audit planning memorandums and document any variances.</li> <li>▶ Determine that variances were accounted for and approved.</li> </ul>	2030

<p>The process for tracking the progress made in support of the annual plan results in reports that:</p> <ul style="list-style-type: none"> <li>▶ Provide an objective statement describing each engagement, and indicate the status by showing key deliverable dates, designated contacts, as well as relevant narrative comments.</li> <li>▶ Are timely, accurate, and disseminated to the appropriate levels of management.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Through interviews, determine and document the process for reporting on progress against the annual plan.</li> <li>▶ Compare monthly status reports to the annual plan.</li> <li>▶ Review documentation on presentations made to senior management and the board.</li> <li>▶ Assess effectiveness of the process in achieving the criteria addressed.</li> </ul>	<p>2020  2060</p>
<p>Reports prepared on the results achieved in support of the annual plan are appropriately used for decision making, and resources are appropriately utilized.</p>	<ul style="list-style-type: none"> <li>▶ Interview members of senior management and the board to determine the utilization of monthly status reports content.</li> <li>▶ Review minutes or emails regarding any pertinent meetings.</li> </ul>	<p>2020  2060</p>

**Appendix 11: Internal Audit Capability Model Matrix**

Matrix Level	Services and Role of IA	People Management	Professional Practices	Performance Management and Accountability	Organizational Relationships and Culture	Governance Structures
<b>Level 5 – Optimizing</b>	IA Recognized as Key Agent of Change	Leadership Involvement with Professional Bodies Workforce Projection Talent Management Robust Succession Planning	Continuous Improvement in Professional Practices Strategic IA Planning Technology Advances	Reporting of IA Effectiveness	Effective and Ongoing Relationships Trusted Advisor	Independence, Power and Authority of the IA Activity
<b>Level 4 – Managed</b>	Overall Assurance on Governance, Risk Management and Control	IA Contributes to Management Development IA Activity Supports Professional Bodies Workforce Planning	Audit Strategy Leverages Organization's Management of Risk	Integration of Qualitative and Quantitative Performance Measures	CIA Advises and Influences Top-level Management	Independent Oversight of the IA Activity CIA Reports to Top-level Authority
<b>Level 3 - Integrated</b>	Advisory Services  Performance/ Value-for-Money Audits	Team Building and Competency  Professionally Qualified Staff  Workforce Coordination	Quality Management Framework  Risk-Based Audit Plans	Performance Measures  Cost Information IA Management Reports	Coordination with Other Review Groups  Integral Component of Management Team	CIA Reports to Top-Level Authority  Management Oversight and Support of the IA Activity  Funding Mechanisms

Matrix Level	Services and Role of IA	People Management	Professional Practices	Performance Management and Accountability	Organizational Relationships and Culture	Governance Structures
Level 2 - Infrastructure	Compliance Auditing	Individual Professional Development Skilled People Identified and Recruited	Professional Practices and Processes Framework Audit Plan Based on Management/ Stakeholder Priorities	IA Operating Budget IA Business Plan	Managing within the IA Activity	Full Access to the Organisation's Information, Assets, and People Reporting Relationships Established
Level 1 - Initial	Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organisational unit; no established capabilities; therefore, no specific key process areas.					

**Appendix 12: Internal Audit Capability Model Levels**

Level	Description of Capabilities
5 – Optimising	<ul style="list-style-type: none"> <li>• IA is a trusted advisor.</li> <li>• IA is a learning organisation with continuous process improvements and innovation.</li> <li>• IA uses information from inside and outside the organisation to contribute to achieving strategic objectives.</li> <li>• World-class/recommended/best practice performance.</li> <li>• IA is a critical part of the organisation's governance structure.</li> <li>• Top-level professional and specialised skills.</li> <li>• Individual, unit, and organisational performance measures are fully integrated to drive performance improvements.</li> </ul>
4 – Managed	<ul style="list-style-type: none"> <li>• IA and key stakeholders' expectations are in alignment.</li> <li>• Performance metrics are in place to measure and monitor IA processes and results.</li> <li>• IA is recognised as delivering significant contributions through value-added services to the organisation.</li> <li>• IA has developed a framework broad enough to encompass risk and control considerations at all levels of the organisation's governance, risk management, and control processes.</li> <li>• IA functions as an integral part of the organisation's governance and risk management.</li> <li>• IA is a well-managed business unit.</li> <li>• Risks are measured and managed quantitatively.</li> <li>• Requisite skills and competencies are in place with a capacity for renewal and knowledge sharing (within IA and across the organisation).</li> </ul>
3 – Integrated	<ul style="list-style-type: none"> <li>• IA policies, processes, and procedures are defined, documented, and integrated into each other and the organisation's infrastructure.</li> <li>• IA management and professional practices are well established and uniformly applied across the IA activity.</li> <li>• IA is starting to align with the organisation's business and the risks it faces.</li> <li>• IA evolves from conducting only traditional IA to integrating as a team player, conducting performance or process-based auditing, and providing advice on performance and management of risks.</li> <li>• Focus is on team building and capacity of the IA activity and its independence and objectivity.</li> <li>• IA supports the implementation and coordination of an effective Three Lines of Defense model.</li> <li>• Generally conforms with the <i>Standards</i>.</li> </ul>
2 – Infrastructure	<ul style="list-style-type: none"> <li>• Key question or challenge for Level 2 is how to establish and maintain repeatability of processes and thus a repeatable capability.</li> <li>• IA reporting relationships, management and administrative infrastructures and professional practices and processes are being established (IA guidance, processes and procedures).</li> <li>• Audit planning is based principally on management priorities.</li> <li>• Continued reliance essentially on the skills and competencies of specific persons.</li> <li>• Conducts principally compliance or controls-based auditing.</li> <li>• Partial conformance with the <i>Standards</i>.</li> </ul>

Level	Description of Capabilities
1 - Initial	<ul style="list-style-type: none"> <li>● Ad hoc or unstructured.</li> <li>● Isolated single audits or reviews of documents and transactions for accuracy and compliance.</li> <li>● Output dependent upon the skills of the specific person holding the position.</li> <li>● No professional practices established other than those provided by professional associations.</li> <li>● Funding approval by management, as needed.</li> <li>● Absence of infrastructure.</li> <li>● Auditors likely part of a larger organisational unit.</li> <li>● Institutional capability is not developed.</li> </ul>

**Appendix 13: Internal Audit Maturity Assessment**

Internal Audit Maturity Rating	Standard 1000 Purpose, Authority, and Responsibility	Standards 1100, 1130 Independence and Objectivity	Standard 1200 Proficiency and Due Professional Care	Standard 1300 Quality Assurance and Improvement Programme	Standard 2000 Managing the Internal Audit Activity	Standard 2100 Nature of Work
<b>Optimized</b>	Internal Audit Charter in place, reviewed and approved by Audit Committee on annual basis, clearly linked to corporate governance objectives, specifies good practice Internal Audit reporting arrangements.	Internal Audit reporting arrangements defined in Internal Audit Charter, specifies good practice reporting arrangements, independence and objectivity requirements defined by Internal Audit policy including the requirement for conflict of interest disclosure, annual attestation required by Internal Audit staff.	Internal Audit resources are credentialed, specialist resources are available when required, annual Risk Assessment conducted, ongoing and periodic Quality Assurance processes in place, training programmes reinforce Internal Audit credentials and support execution of Internal Audit Work.	Documented ongoing and periodic Quality Assurance Programme in place, Quality Assurance activities occur for internal audit engagements, Internal Assessment conducted annually, External Assessment conducted at least every 5 years.	Internal Audit policies and procedures in place, Internal Audit plans linked to corporate objectives, effective Internal Audit reporting arrangements, audit client feedback sought, performance measures in place and used to drive continuous improvement.	Internal Audit focuses on controls, risk, and governance, Internal Audit plans are clearly linked to enterprise-wide view of risk and plans are periodically adjusted, Internal Audit uses recognized control frameworks in its work.
<b>Managed</b>	Internal Audit Charter in place, reviewed and approved by Audit Committee on annual basis, clearly linked to corporate governance objectives.	Internal Audit reporting arrangements defined in Internal Audit Charter, specifies good practice reporting arrangements, independence and objectivity requirements defined by Internal Audit policy including the requirement for conflict of interest disclosure.	Internal Audit resources are credentialed, some specialist resources are available, annual Risk Assessment conducted, ongoing and periodic Quality Assurance processes in place.	Documented ongoing and periodic Quality Assurance Programme in place, Quality Assurance activities occur for internal audit engagements, Internal Assessment conducted annually.	Internal Audit policies and procedures in place, Internal Audit plans linked to corporate objectives, effective Internal Audit reporting arrangements, client feedback sought.	Internal Audit focuses on controls, risk, and governance, Internal Audit plans are clearly linked to enterprise-wide view of risk and plans are periodically adjusted.

<p><b>Internal Audit Maturity Rating</b></p> <p><b>Implemented</b></p>	<p>Internal Audit Charter in place, reviewed and approved by Audit Committee on a periodic basis.</p>	<p><b>Standards 1100, 1130 Independence and Objectivity</b></p> <p>Internal Audit reporting arrangements defined in Internal Audit Charter specifies good practice reporting arrangements.</p>	<p><b>Standard 1200 Proficiency and Due Professional Care</b></p> <p>Some Internal Audit resources are credentialled, some specialist resources are available, annual Risk Assessment conducted, ongoing Quality Assurance processes in place.</p>	<p><b>Standard 1300 Quality Assurance and Improvement Programme</b></p> <p>Ongoing and periodic Quality Assurance Programme elements in place, Quality Assurance activities occur for internal audit engagements.</p>	<p><b>Standard 2000 Managing the Internal Audit Activity</b></p> <p>Internal Audit policies and procedures in place, Internal Audit plans linked to corporate objectives, effective Internal Audit reporting arrangements.</p>	<p><b>Standard 2100 Nature of Work</b></p> <p>Internal Audit focuses on controls, risk, and governance.</p>
<p><b>Internal Audit Maturity Rating</b></p> <p><b>Defined</b></p>	<p>Internal Audit Charter in place and approved by Audit Committee.</p>	<p><b>Standards 1100, 1130 Independence and Objectivity</b></p> <p>Internal Audit reporting arrangements defined in Internal Audit Charter, but not good practice reporting arrangements.</p>	<p><b>Standard 1200 Proficiency and Due Professional Care</b></p> <p>Internal Audit resources are partially credentialled, specialist resources may be available, annual Risk Assessment conducted, some ongoing Quality Assurance processes in place.</p>	<p><b>Standard 1300 Quality Assurance and Improvement Programme</b></p> <p>Some ongoing Quality Assurance Programme elements in place, some Quality Assurance activities occur for internal audit engagements.</p>	<p><b>Standard 2000 Managing the Internal Audit Activity</b></p> <p>Internal Audit policies and procedures in place, Internal Audit plans linked to corporate objectives.</p>	<p><b>Standard 2100 Nature of Work</b></p> <p>Internal Audit focuses on controls and risk.</p>

<b>Internal Audit Maturity Rating</b>	<b>Standard 1000 Purpose, Authority, and Responsibility</b>	<b>Standards 1100, 1130 Independence and Objectivity</b>	<b>Standard 1200 Proficiency and Due Professional Care</b>	<b>Standard 1300 Quality Assurance and Improvement Programme</b>	<b>Standard 2000 Managing the Internal Audit Activity</b>	<b>Standard 2100 Nature of Work</b>
<b>Initial</b>	No Internal Audit Charter or in draft or not approved by Audit Committee.	Internal Audit reporting arrangements not defined in Internal Audit Charter or reporting arrangements not in line with good practice.	Internal Audit resources not credentialed, no specialist resources, no annual Risk Assessment, limited ongoing Quality Assurance processes in place.	No formal Quality Assurance Programme in place, some Quality Assurance activities may occur for internal audit engagements.	No Internal Audit policies and procedures in place, Internal Audit plans not linked to corporate objectives.	Internal Audit focuses on compliance/control.

<b>Internal Audit Maturity Rating</b>	<b>Standard 2200 Engagement Planning</b>	<b>Standard 2300 Performing the Engagement</b>	<b>Standard 2400 Communicating Results</b>	<b>Standard 2500 Monitoring Progress</b>	<b>Standard 2600 Communicating the Acceptance of Risks</b>	<b>Code of Ethics</b>
<b>Optimized</b>	Planning performed in collaboration with stakeholders, planning adjusted for differing circumstances, planning documented, the consistent methodology applied to internal audit engagements, supervisory review, and sign-off occurs.	Internal Audit policies and procedures clearly define internal audit engagement process, Audit Work Plans are tailored for each engagement, supervisory review and sign-off occurs, automated audit working paper system in place, CAATs and other audit techniques actively used.	Reporting protocol established for communicating results, reporting done consistently from content and format perspective, CAE reviews and signs-off audit reports before issue, management input to reporting is actively sought, reports contain management comments and agreed actions, Internal Audit prepares reports that show systemic issues found through its work.	Follow-up protocol established, follow-up on implementation of audit recommendations performed consistently, reporting to Audit Committee on the status of audit recommendations, automated system for receiving progress updates from management, high rate of audit recommendation clearance.	Escalation protocol defined, the process clearly understood by Internal Audit and management, collaborative approach to resolution, clear definition of the level of risk that can be assumed by Management that precludes the need for escalation protocol.	Organization Code of Conduct established, IIA Code of Ethics is embedded in Internal Audit policies, ethics training is conducted, Internal Audit staff complete annual Code of Ethics declaration.

Internal Audit Maturity Rating	Standard 2200 Engagement Planning	Standard 2300 Performing the Engagement	Standard 2400 Communicating Results	Standard 2500 Monitoring Progress	Standard 2600 Communicating the Acceptance of Risks	Code of Ethics
<b>Managed</b>	Planning performed in collaboration with stakeholders, planning documented, the consistent methodology applied to internal audit engagements, supervisory review, and sign-off occurs.	Internal Audit policies and procedures clearly define internal audit engagement process, Audit Work Plans are tailored for each engagement, supervisory review and sign-off occurs, may have automated audit working paper system in place.	Reporting protocol established for communicating results, reporting done consistently from content and format perspective, CAE reviews and signs-off audit reports before issue, reports contain management comments and actions to implement Recommendations.	Follow-up protocol established, follow-up on implementation of audit recommendations performed consistently, reporting to Audit Committee on the status of audit recommendations.	Escalation protocol defined, process clearly understood by Internal Audit and Management, collaborative approach to resolution.	Organization Code of Conduct established, IIA Code of Ethics is embedded in Internal Audit policies, ethics training is conducted.
<b>Implemented</b>	Planning performed and documented, the consistent methodology applied to internal audit engagements, supervisory review, and sign-off occurs.	Internal Audit policies and procedures clearly define internal audit engagement process, Audit Work Plans are tailored for each engagement, supervisory review and sign-off occurs.	Reporting protocol established for communicating results, reporting done consistently from content and format perspective, CAE reviews and signs-off audit reports before the issue.	Follow-up protocol established, follow-up on implementation of audit recommendations performed consistently.	Escalation protocol defined, the process clearly understood by Internal Audit and Management.	Organization Code of Conduct established, IIA Code of Ethics is embedded in Internal Audit policies.

Internal Audit Maturity Rating	Standard 2200 Engagement Planning	Standard 2300 Performing the Engagement	Standard 2400 Communicating Results	Standard 2500 Monitoring Progress	Standard 2600 Communicating the Acceptance of Risks	Code of Ethics
<b>Defined</b>	Planning performed and documented; consistent methodology applied to internal audit engagements.	Some elements of internal audit engagement process defined, standard Audit Work Plans used.	Reporting protocol established for communicating results, reporting done inconsistently from content and format perspective.	Follow-up protocol established, follow-up on implementation of audit recommendations occurs but not performed consistently.	Escalation protocol established; Management may assume inappropriate level of risk.	Organization Code of Conduct established, IIA Code of Ethics receives some attention.
<b>Initial</b>	Planning not performed or documented, no consistent methodology applied to internal audit engagements.	Internal audit engagement process not clearly defined or Audit Work Plans not prepared for internal audit engagements.	Reporting protocol not established for communicating results, reporting is ad hoc.	No follow-up protocol established, follow-up on implementation of audit recommendations not performed consistently or not performed.	No escalation protocol established.	Organization Code of Conduct not established, IIA Code of Ethics does not receive formal attention.

**Appendix 14: Standard Conformance Evaluation Summary (Table) Template**

Conformance	Standards	Generally Conforms	Partially Conforms	Does Not Conform	Not Applicable	Total
Definition of IA and Code of Ethics	Rule of Conduct					
Purpose	1000-1130					
People	1200-1230					
Performance	1300-1322					
Planning	2000-2130					
Process	2200-2600					
<b>Total</b>						

**Appendix 15: Standard Conformance Evaluation Summary Template**

Quality Assessment Evaluation Summary - Major/ Supporting Standards		Evaluation		
		GC	PC	DNC
<b>A.</b>	<b>ATTRIBUTE STANDARDS</b>			
1000	Purpose, Authority, and Responsibility			
1010	Recognizing Mandatory Guidance in the Internal Audit Charter			
1100	Independence and Objectivity			
1110	Organizational Independence			
1111	Direct Interaction with the Board			
1112	Chief Audit Executive Roles Beyond Internal Auditing			
1120	Individual Objectivity			
1130	Impairment to Independence or Objectivity			
1200	Proficiency and Due Professional Care			
1210	Proficiency			
1220	Due Professional Care			
1230	Continuing Professional Development			
1300	Quality Assurance and Improvement Programme			
1310	Requirements of the Quality Assurance and Improvement Programme			
1311	Internal Assessments			
1312	External Assessments			
1320	Reporting on the Quality Assurance and Improvement Programme			
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "			
1322	Disclosure of Nonconformance			
<b>B</b>	<b>PERFORMANCE STANDARDS</b>			
2000	Managing the Internal Audit Activity			
2010	Planning			
2020	Communication and Approval			
2030	Resource Management			
2040	Policies and Procedures			
2050	Coordination and Reliance			
2060	Reporting to Senior Management and the Board			
2070	External Service Provider and Organizational Responsibility for Internal Auditing			
2100	Nature of Work			
2110	Governance			
2120	Risk Management			
2130	Control			
2200	Engagement Planning			
2201	Planning Considerations			
2210	Engagement Objectives			

<b>2220</b>	Engagement Scope			
<b>2230</b>	Engagement Resource Allocation			
<b>2240</b>	Engagement Work Programme			
<b>2300</b>	Performing the Engagement			
<b>2310</b>	Identifying Information			
<b>2320</b>	Analysis and Evaluation			
<b>2330</b>	Documenting Information			
<b>2340</b>	Engagement Supervision			
<b>2400</b>	Communicating Results			
<b>2410</b>	Criteria for Communicating			
<b>2420</b>	Quality of Communications			
<b>2421</b>	Errors and Omissions			
<b>2430</b>	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”			
<b>2431</b>	Engagement Disclosure of Nonconformance			
<b>2440</b>	Disseminating Results			
<b>2450</b>	Overall Opinions			
<b>2500</b>	Monitoring Progress			
<b>2600</b>	Communicating the Acceptance of Risks			
	The IIA's Code of Ethics			

## Appendix 16: Standard Rating Criteria

Following are the Standards rating criteria:

Rating	Definition
<b>Generally Conforms</b>	<p><b>GC – “Generally Conforms” means the assessor has concluded the following:</b></p> <ul style="list-style-type: none"> <li>▶ For individual standards, the internal audit activity conforms to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.</li> <li>▶ For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual standards and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the section/category.</li> <li>▶ For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the Standards or the IIA Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.</li> </ul>
<b>Partially Conforms</b>	<p><b>PC – “Partially Conforms” means the assessor has concluded the following:</b></p> <ul style="list-style-type: none"> <li>▶ For individual standards, the internal audit activity is making good faith efforts to conform to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or element of the IIA Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.</li> <li>▶ For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with a majority of the individual standards within the section/category and/or elements of the IIA Code of Ethics.</li> <li>▶ For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the Standards or IIA Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.</li> </ul>
<b>Does Not Conform</b>	<p><b>DNC – “Does Not Conform” means the assessor has concluded the following:</b></p> <ul style="list-style-type: none"> <li>▶ For individual standards, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many/all of the objectives of the standard (e.g., 1000, 1010, 2000, 2010, etc.) and/or elements of the IIA Code of Ethics (both Principles and Rules of Conduct).</li> <li>▶ For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with a majority of the individual standards within the section/category and/or elements of the IIA Code of Ethics.</li> <li>▶ For the internal audit activity overall, there will be deficiencies that will usually have a significant negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.</li> </ul>

**Appendix 17: Checklist on External Quality Assessment**

**Note:** This checklist is for guidance purpose only. The Internal Auditor of IAU or CIA may take reference from this checklist to develop a detailed checklist specific to Internal activity performed.

**17.1. ISPIIA 1300 – Quality Assurance and Improvement Programme**

Essentially, Standard 1300 series shall require the CCA and the IAUs to ensure the following assessments:

**17.1.1 The internal audit activity has an adequate quality assurance and improvement programme in place.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the CIA maintains an established Quality Assurance and Improvement Programme.</li> <li>▶ Check whether all auditors are acquainted with the concept and components of the QAIP;</li> <li>▶ Check whether the QAIP is fully operational.</li> </ul>	<p>The internal audit activity has a QAIP in place. All internal auditors are familiar with the programme.</p> <p>Internal audit does not have a QAIP in place. QAIP programme exists but the internal auditors are not familiar with it.</p>			

**17.1.2 The quality assurance and improvement programme is embedded in all internal audit policies and procedures.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the QAIP is specified in any legal or other relevant document.</li> <li>▶ Check whether the concept of QAIP is embedded throughout all steps of the internal audit methodology.</li> </ul>	<p>The QAIP is embedded in all steps of the internal audit methodology.</p> <p>The QAIP is not embedded in the most important steps of the internal audit methodology.</p>			

**17.1.3 The quality assurance and improvement programme include ongoing monitoring, periodic internal self-assessments and independent external quality assessments.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check the content and methodology of the QAIP.</li> <li>▶ Check whether ongoing monitoring is defined as an important component of the daily internal audit activities.</li> <li>▶ Assess responsibilities for ongoing monitoring.</li> <li>▶ Assess the templates and tools that are used for ongoing monitoring.</li> <li>▶ Assess the quality of ongoing monitoring and whether a consistent approach is applied.</li> <li>▶ Check whether periodic self-assessment is well defined as part of the QAIP.</li> <li>▶ Check whether the periodic self-assessment is included in the annual audit plan.</li> <li>▶ Assess whether the internal auditors who are responsible for periodic internal self-assessments are independent, objective and exercise due professional care.</li> <li>▶ Assess the templates and tools that are used for periodic internal self-assessments.</li> <li>▶ Assess the overall quality of the periodic internal self-assessments.</li> <li>▶ Check whether the results of the periodic internal self-assessments are properly reported.</li> <li>▶ Check whether due consideration has been given to the recommendations that result from the periodic internal self-assessments.</li> <li>▶ Check whether periodic external quality assessments conducted by independent reviewers are a well-defined component of the QAIP.</li> <li>▶ Check whether the programme envisages that external assessments could be performed as completely independent external assessments or as self-assessments with independent external validation.</li> <li>▶ Check whether the external assessment has been included in the budget.</li> <li>▶ Check whether the programme includes independence and competency criteria for the persons who will perform the external assessment.</li> <li>▶ Check whether the results of the external assessment are properly reported.</li> <li>▶ Check whether due consideration has been given to the recommendations that result from the external assessment.</li> </ul>	<p>The QAIP includes ongoing monitoring, periodic internal self-assessments and independent external quality assessments. Internal audit consistently performs all these components.</p> <p>The QAIP 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.</p> <p>The QAIP 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.</p> <p>The QAIP 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.</p>			

**17.1.4 The quality assurance and improvement programme cover all aspects of the internal audit function (role, risk assessment, planning and execution of engagements, reporting and training).**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Assess the content and methodology of the QAIP.</li> <li>▲ Assess whether actual performance of the QAIP is consistent with the prescribed methodology.</li> <li>▲ Assess the training and professional development programme.</li> </ul>	<p>The methodology of the QAIP is adequate and consistently applied.</p> <p>The methodology of the QAIP is not adequate.</p> <p>The methodology is adequate, but it is not consistently applied.</p>			

**17.1.5 The internal audit function has meaningful key performance indicators to measure its performance.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Check whether key performance indicators are defined in the internal audit methodology and procedures.</li> <li>▲ Assess the criteria of the indicators especially with regard to their usefulness.</li> <li>▲ Check whether regular reporting on key performance indicators occurs.</li> </ul>	<p>Meaningful key performance indicators are well defined. They are consistently measured and reported.</p> <p>Performance indicators do not exist or are poorly defined.</p>			

**17.1.6 The results of the quality assurance and improvement programme are regularly communicated to senior management.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Assess whether senior management is aware of the existence of a QAIP.</li> <li>▲ Check whether regular reporting occurs.</li> <li>▲ Check whether the CIA regularly reports on the implementation of the recommendations that arise from the various assessments.</li> </ul>	<p>The results of the QAIP are consistently communicated to senior management. Management is also informed about the implementation of recommended actions.</p> <p>The results of the QAIP are not consistently communicated to senior management.</p>			

**17.1.7 That internal audit periodically solicits feedback from auditees and senior management.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Check whether an auditee survey is conducted after completion of each internal audit engagement.</li> <li>▲ Check whether an audit survey is sent periodically to senior management.</li> <li>▲ Check whether the results of the audit surveys are properly analyzed and given due attention by the CIA.</li> <li>▲ Check whether the results of the surveys are periodically communicated to senior management.</li> </ul>	<p>Internal audit regularly solicits feedback from senior management and from auditees. The results of the feedback are communicated to senior management.</p> <p>Internal audit does not solicit feedback from senior management and auditees on a regular basis.</p>			

**17.1.8 Each internal audit unit periodically benchmarks itself against comparable units (nationally and internationally).**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Check whether the internal audit unit participates in national and international events where best practices are presented and discussed.</li> <li>▲ Check whether internal auditors maintain regular contact with peers.</li> <li>▲ Check whether the internal audit function benchmarks itself periodically against best practices.</li> </ul>	<p>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.</p> <p>Internal audit does not keep abreast of recent trends in internal auditing.</p>			

**17.1.9 The internal audit brings real value to the institution.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Assess whether internal audit cares about the value it provides, for example through collecting feedback within the organization.</li> <li>▲ Assess how internal audit measures its value.</li> <li>▲ Interview users of internal audit services (agency heads, senior management, and operational management) on the value they receive from internal audit.</li> </ul>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>			

**17.1.1.10 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	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▲ 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.</li> <li>▲ Assess whether internal auditors are familiar with the use of this term.</li> <li>▲ Check a few internal audit reports for the presence of this statement.</li> <li>▲ Check whether this statement is supported by the results of internal and external quality assurance assessments.</li> </ul>	<p>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.</p> <p>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.</p>			

**17.1.1.11 Any noncompliance with International Standards for the Professional Practice of Internal Auditing (ISPPIA) is properly disclosed.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▲ Check whether disclosure of noncompliance with ISPPIA is defined in the methodology.</li> <li>▲ Check a few internal audit reports for the presence of such disclosures.</li> <li>▲ Check whether the reason for noncompliance has been clearly explained.</li> <li>▲ Check whether the impact of noncompliance is described.</li> </ul>	<p>Internal audit properly discloses noncompliance with ISPPIA as necessary.</p> <p>Internal audit does not disclose noncompliance with ISPPIA as necessary.</p>			

**17.2. ISPPIA 2200 – Engagement Planning**

Checklists to assess compliance of engagement planning requirements are as under:

**17.2.1 Ensure that internal audit develops a detailed plan for every audit engagement.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check for the existence of detailed plans for a few random of internal audit engagements;</li> <li>▶ Check whether the team leader had signed off on those engagement plans;</li> <li>▶ Check whether the Chief of IAU had signed off on those engagement plans;</li> <li>▶ Check whether those randomly selected engagement plans include the required information to conduct the audit.</li> </ul>	<p>Internal audit develops detailed plans for all audit engagements. These plans are properly authorized.</p> <p>Internal audit does not develop detailed plans for all audit engagements or plans are not properly authorized.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the methodology prescribes a standard approach for conducting a preliminary survey;</li> <li>▶ Check whether appropriate questionnaires exist for the preliminary survey;</li> <li>▶ Check a sample of files to determine whether preliminary surveys were conducted.</li> </ul>	<p>Internal audit performs a preliminary survey before the development of the audit objectives.</p> <p>Internal audit does not systematically perform a preliminary survey before the development of the audit objectives.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>Internal audit assesses the probability of significant errors and fraud prior to the development of the audit objectives.</p> <p>Internal audit does not systematically assess the probability of significant errors and fraud prior to the development of the audit objectives.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>Assess whether the audit objectives are aligned with the risk(s) identified during the risk assessment process;</li> <li>Check whether a proper preliminary survey took place;</li> <li>Assess whether the risk(s) identified during the risk assessment process is updated with information acquired during the preliminary survey;</li> <li>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;</li> <li>Assess whether the duration and scope of the audit have been defined;</li> <li>Check whether the impact of possible scope limitations has been assessed</li> </ul>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>			

**17.2.5 To ensure that auditee management is properly informed about the upcoming internal audit engagement.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether a procedure is in place to inform management about the upcoming internal audit engagement;</li> <li>▶ Assess whether this procedure is consistently and fully applied;</li> <li>▶ 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;</li> <li>▶ Check whether the audit team members and the duration of the audit have been specified;</li> <li>▶ Check whether a kick-off meeting was held to discuss issues related to the internal audit engagement.</li> </ul>	<p>Internal audit properly informs management about the objectives, scope and timing of upcoming audit engagements.</p> <p>Internal audit does not systematically or properly inform management about the objectives, scope and timing of upcoming audit engagements.</p>			

**17.2.6 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	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Review a sample of audit files and check whether significant systems, records, assets and personnel are included in the scope.</li> </ul>	<p>The audit scope is sufficient and appropriate to achieve audit objectives and includes a review of significant systems, records, assets and people.</p> <p>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.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether auditors with appropriate skills were selected for internal audit engagements;</li> <li>▶ Check whether external experts with specific skills were hired when the need arose;</li> <li>▶ Check whether the available resources are sufficient to deal with the nature and complexity of internal audit engagements.</li> </ul>	<p>Appropriate and sufficient audit resources have been allocated to perform internal audit engagements.</p> <p>The audit resources allocated to perform internal audit engagements are not consistently appropriate or sufficient.</p>			

**17.2.8 To ensure that a detailed audit programme is developed, which identifies all steps needed to achieve the audit objectives.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether the audit programme includes methods and techniques that are to be used during the audit engagement;</li> <li>▶ Check whether audit steps are complete and sufficiently detailed to enable achievement of the audit objectives;</li> <li>▶ Check whether the steps in the audit programme were allocated to individual internal auditors on the team for execution.</li> </ul>	<p>Detailed audit programmes are developed for every internal audit engagement.</p> <p>Audit programmes are not developed or are not specific enough to enable the achievement of the audit objectives.</p>			

**17.2.9 To ensure that the audit programmes are properly approved.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the CIA approves the detailed audit programmes that internal auditors prepare for internal audit engagements;</li> <li>▶ Check whether changes to approved audit programmes are authorized.</li> </ul>	<p>The CIA approves all audit programmes. Changes to existing programmes are properly authorized.</p> <p>Audit programmes or changes to existing programmes are not consistently approved.</p>			

**17.3. ISPIIA 2300 – Performing the Engagement**

Checklist for review steps and assessment outcomes necessary to fulfill requirements of Standard 2300 series are as below.

This can be achieved by conducting the following assessments.

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ 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).</li> </ul>	<p>Internal audit identifies and analyzes all relevant information during the internal audit engagements.</p> <p>Internal audit sometimes overlooks relevant information or spends too much time analyzing irrelevant information.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the methodology describes which analytical procedures can be used in specific circumstances;</li> <li>▶ Assess whether internal auditors understand the use and value of analytical procedures.</li> </ul>	<p>Internal auditors use analytical procedures in an appropriate way.</p> <p>Internal auditors do not understand how and when to use analytical procedures.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the methodology clearly defines the format and content of working papers;</li> <li>▶ Review a sample of audit files for the completeness and adequacy (proper cross-referencing) of the working papers;</li> <li>▶ Review a sample of audit files for evidence of adequate supervision of the working papers.</li> </ul>	<p>Internal audit maintains proper working papers that document the execution of the approved audit programme. Preparation of the working papers is monitored on a regular basis and they are properly cross-referenced.</p> <p>Internal audit maintains working papers that deviate from the approved audit programme.</p> <p>The working papers are cross-referenced and regularly supervised.</p> <p>Internal audit maintains working papers that deviate from the approved audit programme. Preparation of the working papers is supervised but they are not cross-referenced.</p> <p>Internal audit does not maintain working papers.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether appropriate policies exist for access to internal auditors' working papers;</li> <li>▶ Check whether manual working papers are properly secured;</li> <li>▶ Check whether proper access rights control access to electronic working papers;</li> <li>▶ Assess whether internal auditors are aware of the security requirements and arrangements for working papers.</li> </ul>	<p>Access to audit working papers is well organized and respected.</p> <p>Access to audit working papers is not organized or respected.</p>			

**17.3.5 To ensure that proper retention requirements exist for audit working papers.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether appropriate policies exist for the retention of working papers (FRR 2016);</li> <li>▶ Assess whether the CIA seeks legal advice regarding the retention timeframe for working papers where uncertainties exist;</li> <li>▶ Check whether the internal auditors comply with the requirements for the retention procedure.</li> </ul>	<p>Retention of audit working papers is well organized and respected.</p> <p>Retention of audit working papers is not organized or respected.</p>			

**17.3.6 To ensure that audit engagements are adequately supervised.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether the methodology prescribes that all audit engagements should be adequately supervised;</li> <li>▶ Interview staff about how supervision and coaching take place.</li> </ul>	<p>Audit engagements are adequately supervised, and appropriate coaching of internal auditors takes place.</p> <p>Audit engagements are not well supervised</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>Review a sample of audit files and check for evidence of proper supervision.</li> </ul>	<p>Evidence of supervision is properly documented.</p> <p>Evidence of supervision is not documented.</p>			

**17.4. ISPIIA 2400 – Communicating Results**

Suggestive checklists are as under:

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>Assess whether the audit findings distinguish between significant and less significant issues;</li> <li>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;</li> <li>Interview senior management about the significance of audit findings;</li> <li>Assess whether the audit conclusion includes a clear and substantiated message.</li> </ul>	<p>The impact of critical audit findings is clearly communicated to the audit client or senior management.</p> <p>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.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Assess whether internal audit focuses on both positive and negative findings;</li> <li>▶ Assess whether a satisfactory opinion is based on sufficient evidence;</li> <li>▶ Check whether internal audit clearly provides positive or negative assurance.</li> </ul>	<p>The audit reports presents a balanced view.</p> <p>Internal audit focuses only on negative aspects.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Review a sample of audit reports using the defined quality criteria.</li> </ul>	<p>The audit reports meet all the desired quality criteria and are accurate, constructive, objective, clear, concise and timely.</p> <p>One or more of the desired quality criteria is missing in the internal audit reports.</p>			

**17.4.4 To ensure that audit recommendations are pragmatic.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Assess whether the recommendations contain constructive proposals on how to improve issues identified in the audit findings;</li> <li>▶ Assess whether the recommendations can contribute to improvements in the institution's activities.</li> </ul>	<p>The audit recommendations are pragmatic and will help to improve the controls without jeopardizing the organization.</p> <p>The audit recommendations are not implementable in practice or they do not address the root cause of the problems that are identified.</p>			

**17.4.5 To ensure that management’s response is included in the final audit reports.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Assess whether the auditees are given the opportunity to express their opinions on audit findings and recommendations;</li> <li>▶ Assess whether disagreements on audit findings and recommendations that are not resolved are included in the final audit report.</li> </ul>	<p>Management’s responses are always included in the final audit reports.</p> <p>Management’s responses are not systematically included in the final audit reports.</p>			

**17.5. ISPIIA 2500 – Monitoring Progress**

Suggestive checklists to ensure effective conduct of assessment are as follows:

**17.5.1 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	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the methodology prescribes a specific process for the monitoring of management’s follow-up on audit findings and recommendations;</li> <li>▶ Check whether internal audit has a manual or automated system in place to follow up on audit findings and recommendations;</li> <li>▶ Check whether internal audit takes proper action when the implementation of recommendations from the audit is overdue;</li> <li>▶ Check whether internal audit reviews the adequacy of management’s remediation.</li> </ul>	<p>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.</p> <p>Internal audit does not have a process in place to monitor management’s follow-up on audit findings and recommendations.</p>			

**17.5.2 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	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether this responsibility is clearly defined in the internal audit charter and other relevant documents;</li> <li>▶ Interview some auditees and assess whether they are aware of their responsibility in this regard.</li> </ul>	<p>The auditees are fully aware of their responsibility with regard to the (non-) implementation of audit recommendations.</p> <p>The auditees believe they must follow the recommendations made by internal audit and therefore they are not ultimately responsible for implementation risks.</p>			

**17.6. ISPIIA 1000 – Purpose, Authority and Responsibility**

The following checklists are provided to fulfil ISPIIA 1000.

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether all founding documents that describe the role of internal audit are properly aligned and consistent;</li> <li>▶ Assess whether there is a due process in place to update these documents whenever changes to standards occur;</li> <li>▶ Assess whether management clearly understands the role, authority and responsibility of internal audit.</li> </ul>	<p>Proper documents exist, and they are periodically reviewed. Management fully understands the role of internal audit.</p> <p>Proper documents exist but they are not reviewed periodically and updated where necessary. Management fully understands the role of internal audit.</p> <p>Proper documents exist but management does not understand well the role of internal audit.</p> <p>Proper documents do not exist.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the responsibilities of internal audit are clearly defined in the founding documents;</li> <li>▶ Assess whether the current responsibilities and job descriptions of the internal audit staff excludes operational activities;</li> <li>▶ Assess whether internal auditors are not taking part, in fact or in appearance, in any decision-making process;</li> <li>▶ Assess whether internal auditors are required to regularly sign a declaration of independence;</li> <li>▶ Check whether cases exist in which internal auditors were held responsible for operational activities.</li> </ul>	<p>Internal auditors do not have operational responsibilities.</p> <p>Internal auditors have permanent or occasional operational responsibilities, in fact or in appearance.</p>			

**1.1.1 To ensure that internal audit has unlimited access to information, assets and people.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the founding documents grant internal auditors unlimited access to information, assets and people;</li> <li>▶ Check whether the term ‘unlimited’ access has been properly defined;</li> <li>▶ Check whether the access to information is linked to a classification of the information (confidential, classified, etc.);</li> <li>▶ Check whether internal auditors have the right authorization to access confidential information;</li> <li>▶ Check whether there have been occurrences in which access has been denied.</li> </ul>	<p>There are no restrictions for internal auditors to access information, assets and people.</p> <p>Access exists in principle, but specific authorization is required for each audit engagement.</p> <p>Access exists but not to all information.</p> <p>Access is restricted, and the scope of internal audit may be limited.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Check whether the reporting line of the internal audit function to the CCA has been clearly defined;</li> <li>▶ Assess whether all reporting lines work in practice;</li> <li>▶ Check whether the founding documents describe the communication between internal audit and auditees / audit clients;</li> <li>▶ Check whether the founding documents describe the responsibilities of the auditees (audit objects) to respond to audit findings;</li> <li>▶ Assess whether internal audit produces periodic activity reports, which highlight capacity constraints, budgetary challenges, and other resource issues.</li> </ul>	<p>The reporting lines of internal audit are well defined and are respected in practice.</p> <p>The reporting lines of internal audit are not well defined or are not adequately respected.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Assess whether all employees have access to, and are knowledgeable about, the founding documents, which describe the role and responsibilities of internal audit;</li> <li>▶ Assess whether all employees are made aware of changes to the founding documents;</li> <li>▶ Assess whether the role of internal audit is clearly explained to the new recruits of internal auditors;</li> <li>▶ 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?</li> <li>▶ Assess whether internal audit routinely reiterates its role during the kick-off meetings with audit clients at the beginning of each audit engagement.</li> </ul>	<p>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.</p> <p>No efforts exist to explain the role of internal audit or employees are not aware of it.</p>			

**17.6.5 To ensure that there is clear understanding of the various services that internal audit can provide.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the founding documents establish the provision of both assurance and consulting services by the internal audit unit;</li> <li>▶ 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;</li> <li>▶ Assess whether there is a proper procedure in place for management to request consulting services from internal audit;</li> <li>▶ Assess whether the internal audit plan incorporates a proper balance between assurance and consulting services;</li> <li>▶ Assess activity reports on the delivery of consulting services.</li> </ul>	<p>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.</p> <p>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.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether all founding documents that describe the role of internal audit are properly aligned with national and/or international internal auditing standards;</li> <li>▶ Assess whether national or other standards, if applied, depart from international internal auditing standards.</li> </ul>	<p>The founding documents refer to generally accepted international internal auditing standards and these standards are applied.</p> <p>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.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check the founding documents for reference to a code of conduct for internal auditors;</li> <li>▶ Check whether this code of conduct is in line with the Code of Ethics for Internal Auditors promulgated by the IIA;</li> <li>▶ Assess whether internal auditors must confirm periodically their compliance with the code.</li> </ul>	<p>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.</p> <p>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.</p>			

**17.7. ISPIA 1100 – Independence and Objectivity**

The following checklists are provided to assess the independence and objectivity of internal audit activity.

**17.7.1 To ensure that the independence of internal audit is granted.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check the founding documents for reference to the independence of internal audit;</li> <li>▶ Check whether the Chief of CCA has direct and unrestricted access to agency heads and other senior management personnel.</li> </ul>	<p>The founding documents describe the importance of independence of the internal audit activity and internal audit has access to senior management.</p> <p>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.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DC
<ul style="list-style-type: none"> <li>▲ Check whether the extant regulations and procedures allow independence to the internal audit activity. State the relevant regulation(s) that grant independence to the internal audit activity;</li> <li>▲ Check whether the extant regulations and procedures state both the organizational and functional independence of the internal audit activity;</li> <li>▲ Assess whether any improvement is needed in the regulations and procedures.</li> </ul>	<p>The founding documents describe proper measures to be applied in situations where the independence of internal audit is at risk.</p> <p>The founding documents do not refer to any measures or escalation process when the independence of internal audit is jeopardized.</p>			

**17.7.3 To ensure that the internal audit activity is independent in theory and in practice.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Check whether internal audit is organizationally positioned under the head of the institution;</li> <li>▲ Assess the frequency of meetings between the head of the institution and internal audit;</li> <li>▲ Check whether internal audit has received any request from management to be involved in the daily activities of the institution;</li> <li>▲ Assess the frequency of requests issued by the head of the institution for the performance of ad hoc audits in the period under review;</li> <li>▲ Assess whether the frequency and duration of ad hoc audits have an impact on the fulfillment of the internal audit plan;</li> <li>▲ Identify any obstacles that threatened the independence of the internal audit activity in the period under review;</li> <li>▲ Assess whether the Chief of CCA can negotiate mitigating measures to the threats to independence of the internal audit activity when any deficiencies are identified.</li> </ul>	<p>The internal audit activity is not only independent in theory but also in practice.</p> <p>The internal audit activity seems to be independent but finds it difficult to disagree with the head of the institution.</p> <p>The internal audit activity is independent in theory, but the head of the institution directs its role and activities.</p> <p>Although independence of the internal audit activity is granted in the founding documents in reality this is not the case. The internal auditors of IAU, including the Chief, may be replaced at the discretion of the head of the institution.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Assess whether audit plans are based on an independent and objective risk assessment;</li> <li>▲ Check whether the audit plans, budget and headcount are approved without any serious delay to the start of planned internal audit activities;</li> <li>▲ Identify the main obstacles to approval of the audit plans, budget and headcount;</li> <li>▲ Assess whether internal audit is free to select audits without interference;</li> <li>▲ Assess whether internal audit perceives that there is pressure from management or the head of the agency to change its audit plans;</li> <li>▲ Check whether there are cases in which the head of the agency 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.</li> </ul>	<p>Audit plans, including budget and headcounts, are approved in a timely manner when justified.</p> <p>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.</p>			

**17.7.5 To ensure that the appointment of Chief of CCA and IAUs is based solely on merit.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Check whether procedures for appointing Chiefs of CCA and IAUs are specified in any binding document (for example a law, rulebook or charter);</li> <li>▲ Check whether there are requirements that specify the competencies and skills that Chief Auditors should possess;</li> <li>▲ Check whether the incumbent Chief has been appointed according to the stated requirements.</li> </ul>	<p>There are adequate skills and competencies requirements for the appointment of CCA Chief and IAU Chiefs. These requirements are applied without exception.</p> <p>There are no skills and competencies requirements for the appointment of CCA Chief and IAU Chiefs. Or the requirements are not consistently adhered to when they exist.</p>			

**7.7.1 To ensure that the Chief of CCA and IAU Chiefs cannot be transferred/changed in a random manner.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether procedures for the transfer/change of CCA Chief and IAU Chiefs are in accordance with BCSR;</li> <li>▶ Check whether any Chief was dismissed or transferred during the period under review.</li> </ul>	<p>Adequate regulations exist which outline the conditions and the process by which Chief of CCA and IAUs may be transferred/changed. These regulations are applied without any exceptions.</p> <p>No regulations exist which outline the conditions and the process by which Chief of CCA and IAUs may be transferred/changed. Or existing regulations are not complied with consistently.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether there are provisions for escalation in IA Charter, Manual, BGIAS, and BCSR;</li> <li>▶ Check whether there were cases of escalation in the period under review. Assess the results of these cases.</li> </ul>	<p>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.</p> <p>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.</p>			

**17.7.7 To ensure that internal audit is allowed to report on actual findings.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether specific rules for independence and objectivity are stipulated in the internal audit charter and assess whether these rules are adequate;</li> <li>▶ Check whether there are cases in which the internal auditors have reported that attempts were made to interfere with their work.</li> </ul>	<p>The internal audit charter contains specific provisions to safeguard the independence and objectivity of internal audit. The head of the agency does not interfere with the work of internal audit.</p> <p>There are no proper provisions in the internal audit charter that refer to the independence and objectivity of internal audit. Or there have been cases where attempts were made to interfere with the work of internal audit.</p>			

**17.7.8 To ensure that the CCA can assist internal audit in cases where its independence is threatened by senior management.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Assess the rights of internal audit and possible approaches for escalating cases to the CCA in accordance with applicable legislation.</li> <li>▶ Assess whether threats to independence are reviewed during the external assessments performed by the CCA;</li> <li>▶ Assess whether the CCA has the authority to give recommendations on independence to the head of the agency.</li> </ul>	<p>There is an appropriate escalation process to the level of CCA in cases where the independence of the internal audit activity is threatened. The CCA has the authority to address issues of independence of the internal audit activity to the head of the agency.</p> <p>There is no escalation process to the level of the CCA.</p>			

**17.7.9 To ensure that internal audit is informed about important decisions that are being made by an agency in a timely manner.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether the Chief of IAU takes part in senior management meetings in the agency.</li> <li>▶ Check whether the role of the IAU Chief in senior management meetings are described in a regulation or other internal procedures document (manual);</li> <li>▶ Assess whether the IAU Chief's role in senior management meetings is limited to observer status only.</li> </ul>	<p>Internal audit is systematically invited to attend senior management meetings.</p> <p>Internal audit is rarely or never invited to senior management meetings.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether there are regulations regarding the importance of objectivity of internal auditors.</li> <li>▶ Check whether internal auditors are required to sign a declaration regarding any conflicts of interest before starting each audit engagement.</li> <li>▶ Check whether all internal auditors in practice sign this declaration prior to the start of each audit engagement.</li> <li>▶ Check whether there were any cases of conflict of interest. If there were conflict of interest cases, assess how they were handled.</li> </ul>	<p>The principles of objectivity and conflict of interest are documented in regulations. Internal auditors comply with these regulations.</p> <p>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.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▲ 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.</li> <li>▲ Check whether internal audit has been assigned functions other than internal audit activities.</li> <li>▲ 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.</li> </ul>	<p>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.</p> <p>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.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▲ 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.</li> <li>▲ 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.</li> <li>▲ 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.</li> </ul>	<p>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.</p> <p>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.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Check whether the law, the charter or any other relevant regulation clearly defines the disclosure process for impairments to independence or objectivity.</li> <li>▲ Check whether the disclosure policies and procedures include the requirement to report matters of impairment to the CCA.</li> <li>▲ Assess through interviews with the internal auditors whether they know what to do when independence or objectivity is impaired.</li> </ul>	<p>An official disclosure process that covers the impairment of independence or objectivity is specified and includes the requirement to report all impairments to the CCA. Internal auditors are fully aware of the disclosure process.</p> <p>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 CCA, or the internal auditors are not fully aware of the process.</p>			

**17.7.14 To ensure that no significant scope limitation(s) exist.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Check whether significant scope limitation(s) occurred in the period under review.</li> <li>▲ Assess whether the auditees have been properly informed about the rights of internal auditors to have full access to information, assets and people.</li> <li>▲ Check whether the auditors routinely inform the IAU Chief of scope limitations that are imposed during audit engagements.</li> <li>▲ Check whether the IAU Chief informs the head of the agency when scope limitations are imposed during internal audit engagements. Assess whether appropriate measures were applied.</li> </ul>	<p>No significant scope limitations occurred in the period under review. If scope limitations occurred, they were properly addressed through the escalation process.</p> <p>Significant scope limitations occurred, and they were not properly addressed</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the organization has established rules on receipt of gifts by employees as required by the ACC’s Gift Rules.</li> <li>▶ Check whether the code of conduct for internal auditors stipulates the procedures that employees should follow the Gift Rules issued by ACC when they are offered gifts.</li> <li>▶ 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.</li> </ul>	<p>There are clear procedures in place that address the receipt of gifts by internal auditors. These procedures are as stipulated in the ACC’s Gift Rules and routinely applied by internal auditors.</p> <p>There are no clear procedures that address the receipt of gifts by internal auditors. ACC’s Gift Rules are not followed. 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.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether a cooling-off period has been established for auditors who are transferred from operational units within the organization.</li> <li>▶ Check whether this cooling-off period is complied with in practice.</li> <li>▶ Assess whether proper disclosures were made in cases where internal auditors could not comply with the cooling-off period.</li> </ul>	<p>There are clear policies and procedures in place that address a mandatory cooling-off period for internal auditors who are transferred from operational units within the organization. These procedures are known and complied with by internal auditors.</p> <p>There are no clear procedures that address a cooling-off period for internal auditors upon transfer from operational units within the organization. Or internal auditors are not fully aware of applicable policies and procedures.</p> <p>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.</p>			

**17.7.17 To ensure that there is a cooling-off period for internal auditors who are transferred to operational units within the organization.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Check whether a cooling-off period has been established for auditors who are transferred to operational units within the organization.</li> <li>▲ Check whether the required cooling-off period is complied with in practice.</li> </ul>	<p>There are clear policies and procedures in place that address a cooling-off period for internal auditors who are transferred to operational units within the organization. These procedures are known and complied with by internal auditors.</p> <p>There are no clear policies and procedures that address a cooling-off period for internal auditors who are transferred 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.</p>			

**17.8. ISPIIA 1200 – Proficiency and Due Professional Care**

The following assessments are suggested to ensure that internal auditors’ engagements are backed with proficiency and professional care.

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Check whether proper job descriptions exist for internal auditors;</li> <li>▶ Assess whether internal auditors are knowledgeable about their role and responsibilities;</li> <li>▶ Assess whether internal auditors have the necessary experience and professional certification;</li> <li>▶ Assess whether internal auditors possess the necessary knowledge to perform their job;</li> <li>▶ Check whether required knowledge is assessed prior to the internal audit engagement;</li> <li>▶ Assess whether there is on-the-job training for less experienced internal auditors.</li> </ul>	<p>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.</p> <p>Internal audit has not developed a sustainable competency model but finds acceptable solutions to deal with identified skills gap.</p> <p>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.</p> <p>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.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▲ Check whether the Internal Audit Manual and Bhutan Government Internal Auditing Standards have been adapted to the specific environment of the agency;</li> <li>▲ Assess whether internal auditors fully understand the prescribed internal audit methodology;</li> <li>▲ Check whether appropriate training is provided on the prescribed audit methodology and subsequent updates;</li> <li>▲ Check whether appropriate internal audit procedures and templates exist;</li> <li>▲ Assess whether internal auditors are aware of these procedures and templates.</li> </ul>	<p>An internal audit manual and government internal auditing standards exist with appropriate procedures and templates adapted to the environment of the agency. Internal auditors are well trained to apply the prescribed methodology.</p> <p>There is no internal audit manual adapted to the environment of the agency. Or there is an appropriate internal audit manual but internal auditors do not know how to apply the prescribed methodology.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▲ Assess whether internal auditors are aware that fraud is an important risk to consider when performing audit engagements.</li> <li>▲ Assess whether internal auditors know how to identify fraud risks and the ways in which it may occur.</li> <li>▲ Assess whether internal auditors know how to respond to fraud indicators.</li> </ul>	<p>Internal auditors are well aware of fraud mechanisms and indicators. They consistently consider the risk of fraud in internal audit engagements.</p> <p>The risk of fraud is not consistently considered in internal audit engagements.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Assess whether internal auditors possess appropriate knowledge of the IT environment.</li> <li>▶ Check whether the internal audit unit has a certified IT specialist.</li> <li>▶ Assess whether an appropriate framework, such as, Control Objectives for Information Related Technology (COBIT) is being applied.</li> <li>▶ Check whether IT audits are outsourced.</li> <li>▶ Check whether proper training on IT audit is provided to internal auditors.</li> <li>▶ Check whether the prescribed methodology contains adequate guidance on IT audit.</li> </ul>	<p>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.</p> <p>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.</p> <p>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.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether the use of IT tools and techniques is properly described in the internal audit manual.</li> <li>▶ Check that IT tools and techniques are currently used by internal auditors to conduct internal audit engagements.</li> <li>▶ Assess whether internal auditors are fully aware of the advantages of using proper IT tools and techniques.</li> <li>▶ Check whether proper training on IT tools and techniques is included in the training plan for the period under review.</li> </ul>	<p>IT tools and techniques are available and are currently used by internal auditors for internal audit engagements.</p> <p>IT tools and techniques are not available. Or the available IT tools and techniques are either not useful or used by internal auditors.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether training on problem resolution is included in the training plan.</li> <li>▶ Assess how internal auditors deal with challenges and obstacles.</li> </ul>	<p>Internal auditors know how to solve problems and perform their duties.</p> <p>Internal auditors are not well prepared to solve problems or do not perform their duties adequately.</p>			

**17.8.7 To ensure that internal auditors possess the necessary communication skills.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether training on oral and written communication skills are included in the training plan.</li> <li>▶ Check whether adequate communication skills are part of the recruitment criteria for internal auditors.</li> <li>▶ Assess whether the audit findings demonstrate the professionalism of the internal auditors.</li> <li>▶ Assess whether the audit recommendations are useful and practical for the audited entity.</li> <li>▶ Interview employees of the audited entities in order to assess the professionalism of the internal auditors.</li> </ul>	<p>Good communication skills are key criteria for the recruitment of internal auditors. All internal auditors possess the necessary communication skills.</p> <p>Not all internal auditors possess adequate communication skills.</p>			

**17.8.8 To ensure that there are certification and continuing professional development programmes in place for internal auditors.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether certification and training of internal auditors are regulated through internal procedures.</li> <li>▶ Check whether planned training programmes are actually implemented.</li> <li>▶ Assess internal auditors' degree of satisfaction with the training programme.</li> <li>▶ Check whether certification is maintained by adequate continuing professional development.</li> <li>▶ Assess whether the current training and certification practices are in line with the prescribed requirements.</li> </ul>	<p>Certification and continuing professional development of internal auditors are regulated and requirements are complied with routinely.</p> <p>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.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether the regulations and procedures establish the right and appropriate processes to invite experts to assist with internal audit engagements.</li> <li>▶ Assess in which areas outside expertise is needed. Match the identified needs with actual use of experts.</li> <li>▶ Check whether the budget incorporates contingencies for the use of external experts.</li> <li>▶ Check whether the role and the objectives (terms of reference) of the external experts are clearly defined in a contract or agreement.</li> <li>▶ Assess whether the experts perform in accordance with the job specifications and also transfer knowledge to the internal audit unit.</li> </ul>	<p>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.</p> <p>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.</p>			

**17.8.10 To ensure that the audit objectives are focused on the main risk(s).**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Assess whether internal audit has an adequate methodology in place to identify, assess and prioritize risks.</li> <li>▶ Assess whether internal audit has an independent and unbiased approach to the assessment of risks.</li> <li>▶ Assess whether internal auditors differentiate between critical and less critical risks.</li> <li>▶ Assess whether internal auditors take into account senior management's views on risk and risk management.</li> </ul>	<p>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.</p> <p>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.</p> <p>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.</p> <p>Internal audit does not apply an appropriate risk assessment methodology.</p>			

**17.9. ISPIIA 2000 – Managing the Internal Audit Activity**

In order to assess if the internal audit activity is adding value to the organization's operation, the following assessments are provided under ISPIIA 2000.

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the audit universe has been determined and is regularly updated.</li> <li>▶ Check whether the audit universe consists of all relevant objectives, processes, activities and departments/units in the agency.</li> </ul>	<p>Internal audit has developed a complete audit universe that is updated in a timely manner with new objectives, programmes, processes and entities.</p> <p>Internal audit does not possess a complete audit universe.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▲ Check whether there are adequate procedures for the development of a risk-based audit plan.</li> <li>▲ Check whether proper risk factors, criteria for assessment, risk weights and scores have been defined.</li> <li>▲ Check whether the risks associated with the objectives, processes and activities of the agency have been identified and assessed.</li> <li>▲ 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.</li> <li>▲ Check whether the risk assessment process has been properly documented.</li> <li>▲ Check whether the strategic and annual plans are updated periodically.</li> <li>▲ Check whether the risk-based audit plans are discussed with senior management before final release.</li> </ul>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether a risk management framework exists within the agency.</li> <li>▶ Check whether the existing risk management framework and its results have been assessed by internal audit.</li> <li>▶ Check whether the results of the existing risk management framework are considered during the development of the strategic and annual audit plans.</li> </ul>	<p>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.</p> <p>A risk management framework exists and is useful but is not taken into account by internal audit.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Assess the ways in which senior management's input is solicited and considered in the development of the internal audit plan.</li> <li>▶ Assess the justification provided to include areas proposed for audit by senior management in the audit plan.</li> </ul>	<p>The input from senior management is duly considered in the development of the internal audit plan.</p> <p>The input from senior management is not considered in the development of the internal audit plan.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether the risk factors are in accordance with the specifics of the processes of the agency.</li> <li>▶ Check whether key risk factors have been defined.</li> <li>▶ Check whether proper criteria for the assessment of the selected risk factors have been identified.</li> <li>▶ Check whether the significance/ weight of each risk factor has been rated.</li> </ul>	<p>Internal audit has developed adequate risk factors for its risk assessment process.</p> <p>Internal audit has not developed adequate risk factors for its risk assessment process.</p>			

**17.9.6 To ensure that key controls are identified.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether controls that address a key risk or a number of risks are properly identified.</li> <li>▶ Check whether the adequacy of key controls are analyzed and assessed.</li> </ul>	<p>Internal audit identifies key controls as part of its risk assessment process.</p> <p>Internal audit does not identify key controls as part of its risk assessment process.</p>			

**17.9.7 To ensure that internal audit gives appropriate audit coverage to all areas of the institution.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether total coverage of the audit universe has been outlined in the strategic plan.</li> <li>▶ Check whether classification and prioritization of the processes, activities, and auditees have been made in accordance with the identified risk levels.</li> </ul>	<p>The total audit universe is covered over a certain period of time.</p> <p>The total audit universe is not covered over a certain period of time.</p>			

**17.9.8 To ensure that the audit plan is reviewed periodically.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▲ Assess whether the audit plan is reviewed in the event of significant changes in the audit universe or when new risks arise.</li> <li>▲ Check whether senior management is involved in the review of the audit plan.</li> <li>▲ Check whether the head of the agency approves changes to the audit plan.</li> </ul>	<p>The audit plan is reviewed periodically and whenever major changes occur in the organization.</p> <p>The audit plan is not reviewed periodically or when major changes occur in the organization.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▲ Check whether internal audit periodically analyzes the resources that it needs to perform the audit activities outlined in the audit plan.</li> <li>▲ 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.</li> <li>▲ Check whether knowledge of IT and fraud indicators are part of the assessment of skills needed.</li> <li>▲ Check whether succession planning is incorporated in the assessment process.</li> <li>▲ Check whether there are resources to hire external experts when necessary.</li> <li>▲ Check whether resource limitations are promptly reported to management.</li> </ul>	<p>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.</p> <p>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.</p> <p>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.</p> <p>Internal audit does not periodically analyze whether its resources are sufficient in quality and quantity to perform its audit activities.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether an assessment has been made of the quality and quantity of resources needed to implement the audit plan.</li> <li>▶ Check whether an assessment has been made of the impact of resource limitations.</li> <li>▶ Check whether senior management has been informed in a timely manner about resource limitations and the impact on the institution.</li> </ul>	<p>Senior management is timely informed about any internal audit resource limitations.</p> <p>Senior management is not informed about any internal audit resource limitations.</p>			

**17.9.11 To ensure that internal audit makes use of 'guest' auditors coming from other parts of the organization.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ Check whether these experts have any conflict of interest with respect to the audited area.</li> </ul>	<p>Internal audit uses 'guest' auditors to supplement its technical competence.</p> <p>Internal audit does not use 'guest' auditors.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether the existing procedures are sufficient to perform various types of internal audit engagements.</li> <li>▶ Check whether the current procedures require the use and organization of working papers.</li> <li>▶ Check whether the procedures prescribe the retention of and access to audit files.</li> <li>▶ Check whether the procedures are updated on a regular basis.</li> </ul>	<p>Internal audit has adequate and updated audit policies and procedures.</p> <p>Internal audit does not have adequate audit policies and procedures</p>			

**17.9.13 To ensure that internal audit activities are properly coordinated with other internal assurance providers (e.g. Finance & Accounts Unit/Division).**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Check whether the mandates of other internal assurance providers are documented.</li> <li>▲ Check whether internal audit has conducted an assessment of the work of these internal assurance providers.</li> <li>▲ Check whether the internal audit unit and other internal assurance providers exchange information and reports.</li> <li>▲ Check whether internal audit activities are coordinated with other internal assurance providers in order to avoid duplication.</li> <li>▲ Check whether internal audit relies on the results of the work of other internal assurance providers.</li> </ul>	<p>Internal audit has assessed the work of other internal assurance providers. Internal audit coordinates its activities with these providers.</p> <p>Internal audit does not coordinate its activities with other internal assurance providers.</p>			

**17.9.14 To ensure that internal audit coordinates its activities with the CCA/IAUs.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▲ Check whether cooperation between internal and external auditors is described in any official document.</li> <li>▲ Check whether consideration is given to external audit activities in the internal audit planning process.</li> <li>▲ Check whether external auditors have access to all internal audit files.</li> <li>▲ Check whether internal and external auditors share information and reports.</li> <li>▲ Check whether internal and external audit activities are coordinated in order to avoid duplication.</li> </ul>	<p>Internal audit coordinates its activities with the external auditor.</p> <p>Internal audit does not coordinate its activities with the external auditor.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Interview the external auditors involved in the audit of the agency.</li> <li>▶ Interview the IAU Chief about the Supreme Audit Institution's view of the internal audit unit.</li> </ul>	<p>External audit respects the work of internal audit and relies on its work.</p> <p>External audit does not value the work of internal audit.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether a risk register exists and the extent of internal audit's contribution.</li> <li>▶ Check whether an assurance map exists and the extent of internal audit's contribution.</li> </ul>	<p>Internal audit plays a key role in the development of a risk register and assurance map when these exist.</p> <p>Internal audit does not play a role in the development of the existing risk register or assurance map for the organization.</p>			

**17.9.17 To ensure that the second lines of defense within the agency receive proper audit coverage.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the audit universe includes the second lines of defense.</li> <li>▶ Check whether appropriate consideration has been given to the second lines of defense during the risk assessment process.</li> </ul>	<p>The second lines of defense are included in the scope of internal audit activities and are reviewed.</p> <p>Internal audit does not audit the second lines of defense.</p>			

**17.9.18 To ensure that internal audit activities are properly coordinated with other external assurance providers, e.g. RAA and ACC.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether the mandate of other external assurance providers is documented.</li> <li>▶ Check whether internal audit has conducted an assessment of the work of these external providers.</li> <li>▶ Check whether internal audit and other external assurance providers exchange information and reports (E.g. Tripartite meetings of the past).</li> <li>▶ Check whether the activities of internal audit and other external assurance providers are coordinated in order to avoid duplication.</li> <li>▶ Check whether internal audit relies on the results of the work of other external assurance providers</li> </ul>	<p>Internal audit has assessed the work of other external assurance providers. Internal audit coordinates its activities with these providers.</p> <p>Internal audit does not coordinate its activities with other existing external assurance providers.</p>			

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

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ Assess the usefulness of these reports from senior management's point of view.</li> </ul>	<p>Internal audit periodically reports to senior management on its activities. Management values these reports.</p> <p>Internal audit does not report on its activities to senior management.</p>			

**17.10.ISPPIA 2100 – Nature of Work**

Checklist for assessments necessary under Standard 2100:

**17.10.1 To ensure that internal audit reviews the design and effectiveness of ethical programmes within the institution.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether internal auditors focus on ethical issues in their evaluation of the agency’s objectives, programmes and activities.</li> <li>▶ Check whether there is sufficient emphasis on ethics in internal audit engagements and reports.</li> </ul>	<p>Internal audit reviews the effectiveness of various ethics programmes.</p> <p>Internal audit does not review ethics programmes.</p>			

**17.10.2 To ensure that internal audit reviews how risk ownership and accountability are established within the agency.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether internal audit provides an opinion on the alignment of various programmes, processes and activities with the mission and objectives of the institution.</li> <li>▶ Assess whether the concepts of risk ownership and accountability are examined throughout the internal audit engagements and reflected in audit reports.</li> </ul>	<p>Internal audit reviews how risk ownership and accountability are established within the institution.</p> <p>Internal audit does not consider risk ownership and accountability in its activities.</p>			

**17.10.3 To ensure that internal audit provides assurance on the risk management process.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC

<ul style="list-style-type: none"> <li>▶ Check whether the risk management process is included in the audit universe.</li> <li>▶ Check whether the risk management process is given due consideration during the risk assessment exercise.</li> <li>▶ Assess whether internal audit reviews the effectiveness of the risk management process.</li> <li>▶ Assess whether internal audit reviews the alignment of residual risk with the risk appetite of the organization.</li> <li>▶ Assess whether internal audit reviews the existence and completeness of the risk registers.</li> <li>▶ Assess the role that internal audit plays in the risk management process.</li> </ul>	<p>Internal audit provides regular assurance on all components of the risk management process. Internal audit provides advisory services with regard to risk management.</p> <p>Internal audit provides assurance on some components of the risk management process. Internal audit provides advisory services with regard to risk management.</p> <p>Internal audit does not provide assurance on the risk management process but plays an advisory role in the process.</p> <p>Internal audit does not provide assurance on the risk management process and does not play any advisory role in the process.</p>			
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**17.10.4 To ensure that internal audit pays sufficient attention to the risk of fraud.**

Review steps	Assessment outcome	Generally Conform - GC	Partially Conform - PC	Does Not Conform - DNC
<ul style="list-style-type: none"> <li>▶ Check whether the risk of fraud is considered during the risk assessment process.</li> <li>▶ Check whether the risk of fraud is considered during the planning process of individual audit engagements.</li> </ul>	<p>Internal audit considers the risk of fraud during the risk assessment and planning phase of individual audit engagements.</p> <p>Internal audit does not pay specific attention to the risk of fraud.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether internal audit systematically reviews the effectiveness (do control address risk?) and adequacy (do controls work in practice?) of controls.</li> <li>▶ Check whether internal audit proactively provides advice on effective and adequate controls during the development of new processes and systems.</li> </ul>	<p>Internal audit reviews both the effectiveness and the adequacy of controls. Internal audit proactively advises the agency on effective and adequate controls.</p> <p>Internal audit reviews both the effectiveness and adequacy of controls. Internal audit does not proactively provide advice on effective and adequate controls.</p> <p>Internal audit reviews mainly cover the adequacy of controls.</p> <p>Internal audit does not systematically review the effectiveness and adequacy of controls.</p>			

**17.10.6 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	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the head of the agency requires an opinion on the effectiveness and adequacy of the overall internal control system.</li> <li>▶ 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.</li> <li>▶ Check whether internal audit can express an opinion based on sufficient audit coverage of the organization.</li> </ul>	<p>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.</p> <p>Internal audit provides an opinion on the entire system of internal control without proper audit coverage.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▲ Check whether information integrity and reliability are included in the audit universe.</li> <li>▲ Check whether information integrity and reliability are given due consideration during the risk assessment exercise.</li> <li>▲ Assess whether internal audit reviews the effectiveness of information integrity and reliability.</li> <li>▲ Assess the role that internal audit plays with respect to information integrity and reliability.</li> </ul>	<p>Internal audit provides regular assurance on information integrity and reliability.</p> <p>Internal audit does not provide assurance on information integrity and reliability.</p>			

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

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▲ Check whether privacy of information is included in the audit universe.</li> <li>▲ Check whether the privacy of information is given appropriate consideration during the risk assessment exercise.</li> <li>▲ Assess whether internal audit reviews the effectiveness of information privacy.</li> <li>▲ Assess the role that internal audit plays with respect to information privacy.</li> </ul>	<p>Internal audit provides regular assurance on privacy of information.</p> <p>Internal audit does not provide assurance on privacy of information.</p>			

**17.11.ISPPIA 2600 – Communicating the acceptance of Risks**

The following assessment guidelines are provided to ensure that level of risk accepted by the management is within the risk appetite of the agency.

**17.11.1 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 agency.**

Review steps	Assessment outcome	Generally Conform – GC	Partially Conform – PC	Does Not Conform – DNC
<ul style="list-style-type: none"> <li>▶ Check whether the methodology defines the steps to be taken by internal audit in such a situation.</li> <li>▶ Assess whether internal audit implements the prescribed steps when needed.</li> </ul>	<p>There is an escalation process that internal audit follows when management assumes risk levels that are beyond the risk appetite of the organization.</p> <p>Internal audit does not take any steps when management assumes risk levels that are beyond the risk appetite of the organization.</p>			

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