

# Local Government Application Note

For the UK Public Sector Internal Audit Standards

## Table of Contents

Introduction	<b>3</b>
Attribute Standards	<b>5</b>
Purpose, Authority and Responsibility	<b>5</b>
Independence and Objectivity	<b>7</b>
Proficiency and Due Professional Care	<b>10</b>
Quality Assurance and Improvement Programme	<b>11</b>
Performance Standards	<b>13</b>
Managing the Internal Audit Activity	<b>13</b>
Nature of Work	<b>16</b>
Engagement Planning	<b>17</b>
Performing the Engagement	<b>18</b>
Communicating Results	<b>19</b>
Monitoring Progress	<b>21</b>
Checklist for Conformance with the Standards	<b>22</b>

## Introduction

CIPFA believes that a professional, independent and objective internal audit service is one of the key elements of good governance.

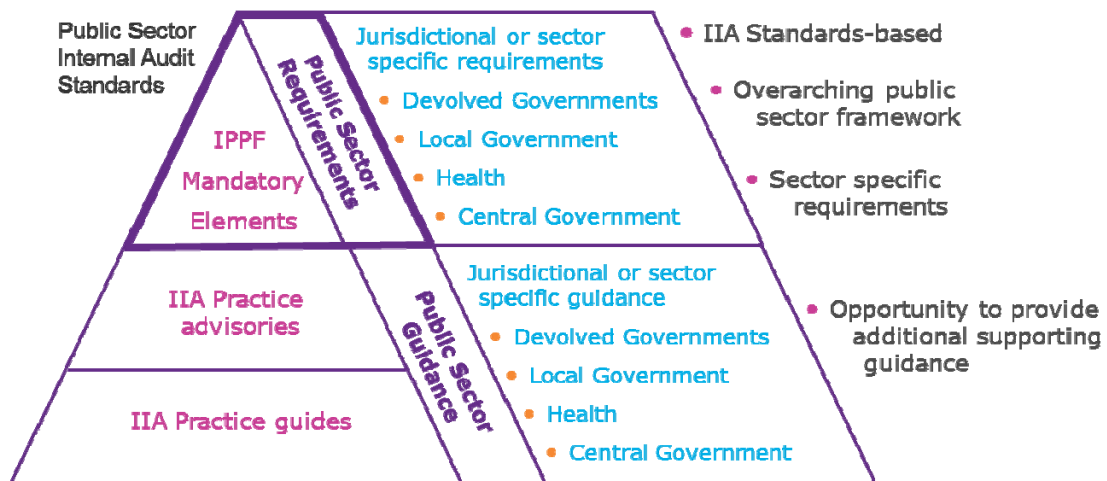
This document is therefore addressed to board and audit committee members, heads of internal audit, internal auditors, external auditors and other stakeholders such as chief financial officers and chief executives.

## The UK Public Sector Internal Audit Standards

The Relevant Internal Audit Standard Setters<sup>1</sup> have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary)

as set out below:



<sup>1</sup> The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK

The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.

The mandatory elements of the IPPF have been interpreted or adapted where necessary for the public sector to create the PSIAS. The IIA Standards are reproduced intact and public sector requirements and interpretations have been included where the RIASS have concluded that additional public sector-specific detail is needed.

The overarching principle borne in mind when all potential public sector interpretations and/or specific requirements were considered was that only the minimum number of additions should be made to the existing IIA Standards. It is important for internal auditors to note that *interpretations* to the PSIAS, whether within the original IIA Standards or additional public sector *interpretations*, are also mandatory and must be adhered to.

### Scope and applicability of this Application Note

The Local Government Application Note has been developed by CIPFA primarily as sector-specific guidance to local government organisations that previously fell within the remit of the CIPFA Code of Practice for Internal Audit in Local Government in the UK.

These are identified in the PSIAS as local authorities, the Office of the Police & Crime Commissioner, constabularies, fire authorities, National Park authorities, joint committees and joint boards in the UK. The guidance also applies to Strathclyde Passenger Transport in Scotland.

However, the Application Note has been written so that much of the guidance contained within should be useful and of interest to internal auditors in other parts of the public sector.

It provides further explanation to the PSIAS and practical guidance on how to apply the Standards, but only where it has been deemed necessary. If internal auditors require further guidance that is not provided in this Application Note, they are advised to refer to other sources of assistance, for example CIPFA's *Tisonline* service and the Better Governance Forum.

### Key governance elements

Within the PSIAS, the term 'board' needs to be interpreted in the context of the governance arrangements within each individual organisation, as these arrangements vary in structure and terminology between sectors and from one organisation and the next within in the same sector. This is especially true within local government, where the role of 'the board' can be fulfilled by the cabinet, full council, audit committee, Head of Paid Service, Chief Financial Officer, Chief Executive etc.

In this Application Note, it is still the responsibility of organisations to consider each instance of the term 'board' within the PSIAS and decide which committee or individual officer best fits the role in that situation.

## Attribute Standards

Attribute Standards are those that apply to the organisations, for example local authorities, as well as to individual internal auditors who are providing the internal audit services in local government.

### **Purpose, Authority and Responsibility**

(covering Standards 1000 and 1010)

The term 'internal audit charter' is not well known within local government, amongst non-IIA members. Traditionally, a local government internal activity (or function) would have a Terms of Reference<sup>2</sup> setting out the type of content described in Standard 1000 but would be far less likely to have a charter.

As noted in the Introduction, Interpretations in the PSIAS must also be treated as mandatory. The charter is therefore expected to:

- define the scope of internal audit activities
- establish the responsibilities and objectives of internal audit
- establish the organisational independence of internal audit
- establish the accountability, reporting lines and relationships between the chief audit executive (CAE) and:
  - the 'board' (for example, the audit committee or the Cabinet)
  - those to whom the CAE may report functionally
- recognise that internal audit's remit extends to the entire control environment of the organisation
- establish internal audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

The PSIAS add some additional requirements for the charter that should already be familiar to local government auditors, including:

- the general arrangements for appointing staff and the skills required
- the role of internal audit (the scope and also limitations) of internal audit in any fraud-related work
- the arrangements for avoiding conflicts of interest when carrying out non-audit activities, and
- a definition of the term 'board' (for the purposes of internal audit activity) or more than one definition, where different committees or other such structures fit the role covered by 'board' in different Standards.

---

<sup>2</sup> Often this will be within the Constitution, or some parts may be included in a strategy.

In local government, the role of the 'board' may be satisfied by the audit committee, a scrutiny committee, the cabinet or even full council: it is the responsibility of CAEs and their organisations to decide which group or individual fulfils the definition in each Standard and document this in the internal audit charter.

In English local larger relevant authorities, as defined in section 2 of the Accounts and Audit (England) Regulations 2011, internal auditors must also identify internal audit's contribution to the review of the effectiveness of the control environment, as set out in those Regulations.

Internal auditors should note that it may be that, with some amendments, an existing Terms of Reference can act as the charter for the purposes of the PSIAS. The CAE should assess whether it covers the points to be included under the PSIAS and make alterations as appropriate so that it fully addresses the areas raised in the PSIAS.

However, CAEs should also investigate the potential opportunity to make an impact in their organisation by drawing up a new internal audit charter.

*Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards in the Internal Audit Charter*

It is important to note that the mandatory internal audit Standards for local government in the UK are the Public Sector Internal Audit Standards (PSIAS), incorporating the Definition of Internal Auditing and the Code of Ethics as well as the Attribute and Performance Standards.

As stated in the PSIAS, if individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation, in terms of ethics and codes of conduct.

## **Independence and Objectivity** (covering Standards 1100, 1110, 1111, 1120 and 1130)

Various aspects of independency and objectivity are covered in Standards 1100 to 1200, including reporting functional lines of the CAE, the relationship between the CAE and the 'board' and any impairment to individual internal audit's objectivity or independence.

### *Independence*

Bearing in mind the guidance set out in the Introduction to the PSIAS, it is up to individual local government organisations to consider carefully which committee or individual fulfils the role as delegated by Council (the board) throughout the Standards, but especially in this section.

Standard 1110 relates to the reporting level of the CAE. In local government, auditors will be familiar with the Head of Paid Service being responsible for ensuring the organisation has the right officers with the appropriate skills/competencies and consequently the appropriate remuneration to implement the policies of the Council as delegated by Council.

The *Interpretation* to Standard 1110 states that the board should approve the remuneration of the CAE – in local government this could be delegated by Council to the cabinet, audit committee or an officer. This will depend on the form of internal audit provision, for example whether it is an in-house service or is supplied by contractors or a partnership, and the identification of where the CAE is positioned.

In practice, remuneration decisions within individual organisations will depend on the arrangements and delegations from the Council.

There has been a long-standing discussion relating to the positioning of the CAE within local government, often specifically referring to the line management arrangements for that role. Standard 1110, and the public sector requirement, states clearly what is meant by 'functional' reporting of the CAE/internal audit activity and ensures that there is an inherent difference and separation from 'administrative' reporting, i.e. line management of the CAE. Again, this will be influenced by the form of the internal audit provision.

Essentially, functional reporting is that which enables the CAE to ensure that the internal audit activity fulfils its responsibilities. It is different to what is deemed to be administrative reporting, which relates to line management.

The PSIAS do not stipulate an administrative reporting line for local government. Generally, many CAEs are line-managed by the chief financial officer (CFO) within the sector and it is not the intention of the IASAB to alter this arrangement where it is working satisfactorily, although the CAE must not report to or be managed at a lower organisational level than the corporate management team.

However, it is clear in the PSIAS that the functional reporting line is key. The previous local government Code (the 2006 Code) set out that the CAE should have direct access to, and freedom to report in his or her own name and without fear or favour to, all officers and members and particularly to 'those charged with governance'. Standard 1000 expands on this, setting out the relationship between the CAE and the board and this may be a major change for some local government organisations, especially those who have traditionally reported functionally to the CFO as well as administratively.

The challenge for those organisations will be to:

- ensure that the CAE's position in the management structure reflects the influence he or she has on the control environment
- provide the CAE with sufficient status to facilitate the effective discussion of audit strategies, plans, reports and action plans with the board
- get support to alter reporting arrangements, where necessary, without damaging the working relationship with the CFO.

It will be key to emphasise that the Standard is clear that the CAE must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities and reporting to the board is the generally accepted method of helping to ensure that organisational independence is attained.

This is underlined in Standard 1111 Direct Interaction with the Board.

### *Objectivity*

Reference is provided in the public sector requirement to Standard 1120 to the Nolan Seven Principles of Public Life, which are those standards expected of all public servants, regardless of which sector they work in.

The PSIAS have a narrower definition of 'conflict of interest' than was previously set out in the 2006 Code: conflicts of interest, whether real or perceived, are something that should be avoided at all times whereas in the 2006 Code they were something that could be avoided or managed. Local government internal auditors must abide by the PSIAS, as in the other sectors, and therefore must be careful to note this more precise definition particularly as Standard 1130 states that situations where it only appears that impairment to objectivity or independence has occurred, 'appropriate parties' have to be informed (determined according to each situation).

Standard 1130 describes what constitutes an impairment to independence or objectivity. Internal auditors should also consider the following:

- not accepting any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies)
- not using information obtained during the course of duties for personal gain
- disclosing all material facts known to them which, if not disclosed, could distort their reports of cones unlawful practice, subject to any confidentiality agreements, and
- ensuring compliance with the Bribery Act 2010.

It is important to note that the Interpretation to 1130 also includes 'restrictions on access to records, personnel and properties and resource limitations, such as funding'. Therefore, the PSIAS incorporate not only potential wrongdoing or other incorrect behaviour but also where impairments are imposed on the internal auditors from an outside influence.



Standards 1130.A1 and .A2 specifically refer to the situation which arises when either an internal auditor has previously had operational responsibilities or when the CAE has responsibilities for other functions and audits are required in those areas.

It is important to bear in mind that while relationships with management can enhance internal audit's ability to achieve its objectives, these must not detract from internal audit's responsibility to report control issues to management and the board.

**Proficiency and Due Professional Care**  
(covering Standards 1200, 1210, 1220 and 1230)

Much of the content in Standards 1200 and following should already be familiar to internal auditors in local government. In addition, reference should also be made to the *Statement on the Role of the Head of Internal Audit* (CIPFA, 2010), which also states that the CAE must be professionally qualified and suitably experienced.

The CAE should define the skills and competencies for each level of auditor and then periodically assess individual auditors against these predetermined skills and competencies. Any training or development needs that are identified should be included in an appropriate ongoing development programme that is recorded and regularly reviewed and monitored.

In addition, all internal auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This may be fulfilled through requirements set by professional bodies, for example CIPFA's approach to CPD, or the organisation's own appraisal and development programme. Auditors should maintain a record of such professional training and development activities.

## **Quality Assurance and Improvement Programme**

(covering Standards 1300, 1310, 1311, 1312, 1320, 1321 and 1322)

Many local government internal auditors may not be familiar with the Quality Assurance and Improvement Programme (QAIP) as set out in the PSIAS. The QAIP has been designed by the IIA to assist in raising standards and applying this across the public sector will bring about consistency in improvement. However, implementing a QAIP in local government should not be an onerous task.

In summary, the Standards require the CAE to develop and maintain a QAIP to enable the internal audit activity to be assessed against the PSIAS (i.e. the Definition of Internal Auditing, the Code of Ethics and the Standards themselves) for conformance.

Standard 1310 is unequivocal in that a QAIP must include both internal and external assessments: internal assessments are both ongoing and periodical and external assessments must be undertaken at least once every five years.

### *Internal Assessments*

The CAE should establish policies and procedures to guide staff in performing their duties and conform to the PSIAS. This may be done in various ways, which include maintaining an audit manual or through the use of electronic audit management systems. The policies and procedures should be regularly reviewed and updated to reflect changes in working practices and standards.

In order to ensure that audit work is carried out to a certain level of quality, the CAE should ensure that audit work is allocated to staff with the appropriate skills, experience and competence. The CAE also should ensure that internal audit staff at all levels are appropriately supervised and work is reviewed throughout all audits to monitor progress, assess quality and coach staff. The extent of supervision will depend on the competence and experience of the individual auditor.

Ongoing performance monitoring may also incorporate the following:

- a comprehensive set of targets to measure performance, developed in consultation with appropriate parties. Performance measures should be included in any service level agreement. The CAE should measure, monitor and report appropriately on the progress against these targets
- stakeholder feedback, and
- an action plan to implement improvements (as the Interpretation to Standards 1300 states that the QAIP is also for assessing the efficiency and effectiveness of the internal audit activity and identifying areas for improvement).

These steps will assist the CAE in carrying out the ongoing monitoring of performance of the internal audit activity.

It is important to remember that the Accounts and Audit (England) Regulations 2011 paragraph 6(3) already requires larger relevant bodies to conduct a review of the effectiveness of its internal audit at least annually.

The results of the review set out in the Regulations may be amended to evaluate conformance with the PSIAS and hence be considered as a 'periodic internal assessment' under the Standards.

The periodic assessment may also review of the activity against the strategy and the achievement of its aims and objectives. The results of this should inform the future strategy.

It should be noted that reference to the International Professional Practices Framework in Standard 1311 must be read as the Public Sector Internal Audit Standards in its entirety, together with this Application Note as guidance.

### *External Assessments*

The requirement for an external assessment to be carried out at least once every five years may be satisfied by either arranging for a 'full' external assessment or by undertaking a self-assessment with 'independent validation'.

Standard 1312 states that the CAE must discuss the format of the external assessments with the 'board' and therefore the CAE will have to consider the pros and cons for each type of external assessment before presenting the outcome of such a deliberation to the board. The CAE must also set out the qualifications and independence of the external assessor or assessment team and the PSIAS Interpretation goes into detail as to how an external assessor or assessment team actually demonstrates competence.

Practically, it is likely to be easier for the CAE of a local government organisation to carry out a self-assessment and then obtain an independent person or team to validate that self-assessment. It may be that a programme of peer reviews could be organised via regional audit groups, for example. However, it is crucial that the requirements set out in the PSIAS are met and that arrangements are put in place to avoid conflict of interest and impairment to objectivity.

### *Disclosure of Non-conformance*

It is important to note that although the original IIA Standard 1322 only requires non-conformance with the PSIAS to be disclosed when it impacts the overall scope or operation of the internal audit activity, the additional public sector requirement states that all instances of non-conformance must be reported to the board. This is a stricter requirement for all public sector organisations and not just local government bodies.

## Performance Standards

The Performance Standards are those that not only describe the nature of the internal audit services being provided, but also provide criteria against which the performance of an internal audit function can be measured.

### **Managing the Internal Audit Activity**

(covering Standard 2000, 2010, 2020, 2030, 2040, 2050, 2060 and 2070)

The internal audit service's prime responsibility is to the organisation. However, public sector bodies operate through partnership arrangements with other organisations to achieve their mutual objectives. The internal audit service should therefore take into account the organisation's need for assurance over the operation of such partnerships as well as its need for assurance over its own risks and controls. See also under 'minimum level of coverage'.

#### *Planning*

The risk-based plan should be sufficiently flexible to reflect the changing risks and priorities of the organisation.

The original IIA Standards only mandate the periodic risk-based plan but the public sector interpretation states that an audit strategy may also be drawn up. This is the high-level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference or charter and how it links to the organisational objectives and priorities. Individual organisations will need to consider the potential benefits of preparing a strategy together with the resources required to do and decide for themselves whether a strategy is desirable.

If an organisation chooses to develop a strategy, it can be presented separately in its own right or integrated into an existing document, such as the business or service plan. It sets the context within which more detailed plans can be developed. The strategy should be kept up to date with the organisation and its changing priorities.

#### *Minimum level of coverage*

Risk assessment should not be seen as a way of determining the 'minimum defensible level of audit'. Each organisation, irrespective of size, needs to form its own view about the level of audit coverage and the optimum resources to be devoted to internal audit. No formula exists that can be applied to determine the minimum level of coverage. Local factors within each organisation will determine the minimum level of coverage for example, the level of assurance provided by other providers. However, as a guide, the minimum level of coverage is the coverage required to give an annual evidence based opinion.

The development of a risk-based audit plan will also have to consider the following factors:

- the requirement to use specialists, e.g. IT or contract and procurement auditors
- striking the right balance over the range of reviews needing to be delivered, for example systems and risk based reviews, specific key control testing, benchmarking exercises and/or value for money studies
- allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary
- the time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion.

In local government, it is likely that some of the key risks of the organisation relate to work it is undertaking in partnership. Internal auditors are likely to need to provide assurance that the risks to the organisation of working in partnership are being appropriately managed and also that the risks relating to the partnership itself are being managed. This assurance may be available from work undertaken by others – perhaps other members of the partnership, or an external regulator – or internal auditors may need to obtain this directly for themselves.

In such cases, auditors will need to ensure that they obtain sufficient access to the partnership officers and records to provide the evidence for their work and conclusions. As required by Standard 2050, the CAE should also make arrangements to share information and coordinate their activities with partner organisations to ensure proper coverage and minimise duplication of effort.

It may be that the CAE is also required to provide assurance to those partnerships, but the risks of doing so will need to be managed effectively. The CAE must also have regard to the fact that their fundamental responsibility is to the management of their employing organisation or, if they are not employed by the authority, the body with which they have been engaged to provide internal audit services.

#### *Communication and approval*

In accordance with current best practice the audit committee should '*review and assess the annual internal audit work plan*'<sup>3</sup>. The development of the audit plan is the responsibility of the chief audit executive after consultation with senior management and the board, and the board should therefore approve but not direct the audit plan.

#### *Resource Management*

*'The audit committee should ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors'*.<sup>4</sup>

---

<sup>3</sup> *Guidance on Audit Committees*, FRC, 2010

<sup>4</sup> *Guidance on Audit Committees*, FRC, 2010

Standard 2030 states that the CAE must ensure that internal audit resources are 'effectively deployed' to achieve the approved risk-based plan. As part of the resource management and planning process, audit work, and especially its timing, should be planned in conjunction with management to minimise abortive work and time unless, for example, this might be perceived as jeopardising the 'challenge' aspect of internal audit work or where unannounced visits are necessary.

The PSIAS require CAEs not only to explain in the internal audit charter how the internal audit resource requirements will be assessed, but also to bring to the attention of the board any consequences arising where the CAE believes that resource levels will impact on the provision of the annual audit opinion.

Once the planned work has been determined, this should be compared to resource availability and where there is an imbalance between the two, the board should be informed of proposed solutions. Significant matters that jeopardise the delivery of the plan or require changes to the plan should be identified, addressed and reported to the board.

Standard 2050 says that the risk-based plan, or the strategy, must set out the approach to be taken when using other sources of assurance and this is backed up by the public sector requirement to Standard 2010 that states the assurance framework must be taken into account in the plan.

This will entail mapping the assurances prior to the CAE determining whether internal audit staff will conduct the work to derive the required assurance themselves or rely on the assurances provided by other auditors or other assurance providers (for example, health and safety auditors/assessors). Assurance mapping may assist CAEs in this process.

#### *Reporting to senior management and the board*

In addition to the annual report (see Standard 2450), the CAE should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report and hence support a 'no surprises' approach, as well as assist management in the drafting of the annual governance statement. See below in 2400 for guidance on the public nature of local authority audit work.

In line with the government's transparency agenda, internal audit reports should, by default, be considered to be in the public domain.

**Nature of Work**

(covering Standards 2100, 2110, 2120 and 2130)

The PSIAS go into detail on the main areas of which the internal audit activity must contribute to the improvement i.e. governance, risk management and control. The internal audit activity in local government already assists management in informing the annual government statement and Standard 2120 formalises some of the areas already undertaken.

It is important to note that 2110.A1 and 2110.A2 mandate the internal audit activity to focus on ethics and information technology governance of the organisation. However, it is important, especially for smaller organisations, to bear in mind the proportionality of this in conjunction with the risk-based planning process.



## **Engagement Planning**

(covering 2200, 2201, 2210, 2220, 2230 and 2240)

For each engagement, a brief should be prepared, discussed and agreed with relevant managers. The brief should establish the objectives, scope and timing for the assignment and its resource and reporting requirements. Audit work should be undertaken using a risk-based audit approach.

The public sector interpretation to Standard 2210.A3 acts as a reminder that engagement objectives in the public sector should, where appropriate, include value for money criteria – economy, efficiency and effectiveness. This can also include the use of the organisation's resources such as money, people and assets.

## **Performing the Engagement**

(covering 2300, 2310, 2320, 2330 and 2340)

The primary responsibility for the prevention and detection of fraud lies with management, who are also responsible for the management of fraud risks. In support of this, internal auditors must be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest when performing their individual audits. They must also have sufficient knowledge to identify indicators that fraud or corruption may have been committed.

At each stage of the audit, auditors should consider what specific work needs to be conducted and evidence gathered to achieve the engagement objectives and support an independent and objective audit opinion.

The CAE must have systems in place to ensure that auditors obtain and record sufficient evidence to support their conclusions, professional judgements and recommendations. Working papers must always be sufficiently complete and detailed to enable an experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached.

The CAE must also specify how long all audit documentation should be retained, whether held on paper or electronically, while having regard to organisational policy and statutory requirements. He or she should control access to audit documents and should, before releasing them to third parties, obtain the approval of the relevant management.

All audit work should be subject to an appropriate internal quality review process. The CAE must specify the required standard of internal audit documentation and working papers and, through review processes, ensure that those standards are met.

## **Communicating Results**

(covering 2400, 2410, 2420, 2421, 2430, 2431, 2440 and 2450)

In local government, internal auditors operate in the public domain. There will be a variety of external interests in their work, from the organisation's partners in the voluntary sector and other parts of the public sector, to the general public and the 'armchair auditors' the government expects to scrutinise local government activities. Whilst the Data Protection Act protects specific information about individuals, the Freedom of Information Act obliges internal auditors to manage their activities in the expectation that their work will become public knowledge and could be scrutinised by anyone with an interest in doing so.

In addition to the requirements set out in the PSIAS, internal auditors must disclose all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements.

The basic aims of every internal audit report should be to:

- give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment
- prompt management to implement the agreed actions for change leading to improvement in the control environment and performance, and
- provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales.

Each report should include the scope and purpose of the audit to help the reader to understand the extent, or limitations, of the assurance provided by the report.

During the course of the audit, key issues should be brought to the attention of the relevant manager to enable them to take corrective action and to avoid surprises at the closure stage. Before issuing the final report, the internal auditor should normally discuss the contents with the appropriate levels of management to confirm the factual accuracy, to seek comments and to confirm the agreed management actions. A draft report is useful for this purpose.

Recommendations should be prioritised according to risk. The recommendations and the resultant management action plans should be agreed prior to the issue of the final report. Any areas of disagreement between the internal auditor and management that cannot be resolved by discussion should be recorded in the action plan and the residual risk highlighted. Those weaknesses giving rise to significant risks that are not agreed should be brought to the attention of a more senior level of management and the board.

The CAE should determine the circulation of audit reports within the organisation, having due regard to their confidentiality and legislative requirements. The recipients of the audit report, i.e. those that have the authority to agree management actions, should be determined when preparing the engagement plan. Internal audit should normally obtain the consent of management, and vice versa, before reports are issued to third parties.

Mechanisms should be in place to ensure that recommendations with a wider impact than the area under review are reported to the right forum and also to ensure that risk registers are updated.

### *Overall Opinions*

The CAE must provide an annual report to the board timed to support the annual governance statement. This must include:

- an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control environment
- a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies), and
- a comment on conformance with the PSIAS and the results of the internal audit quality assurance and improvement programme.

It should also include:

- disclosure of any qualifications to that opinion, together with the reasons for the qualification
- disclosure of any impairments ('in fact or appearance') or restriction in scope
- a comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets, and
- any issues the CAE judges particularly relevant to the preparation of the annual governance statement
- progress against any improvement plans resulting from QAIP external assessment.

**Monitoring Progress**  
(covering Standard 2500)

The PSIAS places that responsibility onto the CAE to ensure that management actions have been effectively implemented or, if not, that senior management have accepted the risk of taking action.

The CAE must implement a follow-up process for ensuring the effective implementation of audit results or ensuring senior management are aware of the consequences of not implementing an action point and are prepared to accept the risk of such consequences occurring. The results of this process should be communicated to the Board.

The CAE should develop escalation procedures for cases where agreed actions have not been effectively implemented by the date agreed. These procedures should ensure that the risks of not taking action have been understood and accepted at a sufficiently senior management level.

The findings of audits and follow-up reviews should inform the planning of future audit work.

## **CHECKLIST FOR CONFORMANCE WITH THE STANDARDS**

[Under development – to be included in the published version]