
I. INTERNAL AUDIT CHARTER

I. Internal Audit Charter:

1. Purpose:

The purpose of this Charter is to provide a framework within which the internal audit shall function in the Ministries/Agencies of the Royal Government of Bhutan. It is a formal document giving authority and defining the roles & responsibilities of Internal Audit. It ensures uniformity and consistency in the Internal Audit functions and enhances good governance across the ministries and agencies of the Royal Government of Bhutan.

2. Mission and objectives:

The mission of internal audit shall be to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

3. Scope:

The scope of Internal Audit shall encompass all the entities under the Ministry/Agency

The scope of work of the Internal Audit shall be to:

- 3.1. review organizational goals/objectives, policies, plans and procedures.
- 3.2. ensure economy, efficiency and effectiveness of operations and various management practices.
- 3.3. ensure compliance to various laws, rules and regulations.
- 3.4. review adequacy and effectiveness of the internal control/management systems.
- 3.5. carry out special investigations.

4. Roles and responsibilities:

The role and responsibilities of Internal Audit shall be to:

- 4.1** provide assurance to the management on various management practices and procedures through the following:
 - 4.1.1 ensure compliance with laws, rules and regulations
 - 4.1.2 ensure the economy, efficiency and effectiveness of operations
 - 4.1.3 assess the implementation of policies & plans.
 - 4.1.4 review the achievement of goals and objectives
- 4.2** provide diagnostic and advisory services for improvement of management systems through the following.
 - 4.2.1 carry out special investigations.
 - 4.2.2 review the safeguarding of assets & properties.
 - 4.2.3 examine the appropriateness and effectiveness of the management systems including internal controls.
 - 4.2.4 ensure that the actions are taken by the management on the recommendations.

5. Independence:

The internal audit shall be administratively under the Ministries/Agencies but shall be independent within the Ministry/Agency for all its operational purposes. It shall:

- 5.1. report only to the Head of Secretariat/ Ministry/ Agency.
- 5.2. not be involved in daily operations and activities; and have no management or executive powers, authorizations, functions or duties except those relating to internal audit functions.

6. Authority:

The internal audit shall:

- 6.1. have full access to all relevant official information, records and property.
- 6.2. have full access to the management and staff of the Ministry/Agency.
- 6.3. decide on the audit plan and the entity to be audited.
- 6.4. get necessary assistance of experts for the specialized services from within or outside the organization.

7. Accountability of Head of Internal Audit:

The Internal Audit Head shall be accountable for:

- 7.1. effective management of Internal Audit functions in the Ministry/Agency by providing necessary professional, technical and operative guidance in accordance with the *Generally Accepted Internal Auditing Standards*.
- 7.2. strategic planning, programming and execution of audit activities.
- 7.3. preparation of annual audit plan.
- 7.4. providing continuous and timely internal audit service to the Ministry/Agency.

8 Reporting

The internal audit shall submit written reports on the activity carried out to the respective Head of Ministry/Agency with a copy to the audited entity for information.

9. Standards and Code of Ethics:

Internal audit shall be governed by *Internal Audit Standards*.

Internal Auditors shall abide by *Code of Ethics for Internal Auditors*.

10. Role of Coordinating Agency:

As per the **Public Finance Act of Bhutan 2007**, Section 23 (O), the Ministry of Finance shall be the Coordinating Agency and shall:

- 10.1. coordinate the overall Internal Audit functions in different Ministries /Agencies effectively.
- 10.2. ensure quality, uniformity and consistency of Internal Audit System across the Ministries/ Agencies.
- 10.3. develop and modify the Charter/Mandates, Manuals, Code of Ethics and Internal Audit Standards.
- 10.4. render advice, technical backstopping and consultation to the Internal Audit Units as and when required.
- 10.5. issue Guidelines to Internal Auditors.
- 10.6. promote understanding, acceptance and utilization of Internal Audit services by all levels of Management.
- 10.7. enhance the skills, techniques and knowledge of Internal Auditors.
- 10.8. coordinate recruitments, transfers, promotions and develop career path for Internal Auditors.
- 10.9. develop job descriptions for Internal Auditors.
- 10.10. formulate and adopt the standards for the professional practice of Internal Audit.
- 10.11. create awareness of Internal Audit System among the stakeholders.
- 10.12. facilitate affiliation to World Body of Institute of Internal Auditors.

11. Charter Amendments:

To keep pace with the fast changing environment, this Charter shall be dynamic and updated as and when the need arises.

II. CODE OF ETHICS FOR INTERNAL AUDITORS

II. Code of Ethics for Internal Auditors:

Introduction

The **Code of Ethics of the Internal Auditors** presents a comprehensive declaration of values and principles which should accompany the everyday work of internal auditors in the Ministries/Agencies. The Code covers ethical demands for the internal auditors' profession.

The behaviour of internal auditors should be always and at all events irreproachable. A code of ethics is necessary and appropriate for the profession of internal auditing, 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:

- A. **Principles** that is relevant to the profession and practice of internal auditing;
- B. **Rules of Conduct** that describe behavioural norms expected of internal auditors, helping to interpret the Principles into practical applications, intended to guide the ethical conduct of internal auditors.

This Code applies to both individuals and entities that provide internal auditing services. The internal auditors are required to apply and uphold the following principles and rules in addition to Bhutan Civil Service Code of Conduct and Ethics:

12. INDEPENDENCE

For internal auditors it is indispensable to maintain their independence as one of the most important attributes of their activities, both in relation to the auditees and to other external interest groups.

Rules of Conduct

Internal Auditors shall:

- 12.1. refrain from any activity which might retract them into unexpected interests and spheres and so discredit their independence when auditing;
- 12.2. protect their independence from political influence/ pressure;
- 12.3. avoid both personal and external interest.
- 12.4. protect their independence by refusing gifts or favours which might influence or might be understood as influencing their independence and impartiality.

13. INTEGRITY

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

Rules of Conduct

The internal auditors shall:

- 13.1. perform their job honestly, diligently and with responsibility;
- 13.2. perform their work in harmony with the acts and other generally binding regulations;
- 13.3. avoid any illegal activity or any activity which discredits the internal auditors' profession;
- 13.4. respect the legal and ethical objectives of the government policies and contribute to their realization;
- 13.5. take care that their integrity is not compromised.

14. OBJECTIVITY

The internal auditors shall show the highest level of professional objectivity while conducting audits. The internal auditors shall make balanced assessment of all relevant circumstances and ensure that they are not unduly influenced by their own interests or by others in forming judgments.

Rules of Conduct

The internal auditors shall:

- 14.1. avoid taking part in activities or relations which may damage, or might be understood as damaging their unbiased assessment including activities or relations which may be in conflict with public interests;
- 14.2. avoid accepting anything that may damage or might be understood as damaging their objective professional assessment;
- 14.3. protect their objectivity against political influence;
- 14.4. disclose all substantial facts known to them that – being undisclosed – might misrepresent the conclusions on activities or events assessed.

15. CONFIDENTIALITY:

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

Rules of Conduct

The internal auditors shall:

- 15.1. be careful when using and protecting information they gathered when auditing;
- 15.2. avoid disclosing and making use of the information obtained during internal auditing in order to damage the interests of other person or organization;

- 15.3. avoid making use of the information obtained during auditing for personal enrichment or in a way which would be in conflict with the law or which would damage legitimate and ethical interests of the audited entity.

16. COMPETENCY:

The internal auditors shall make use of their knowledge, skills and practical experience necessary for auditing performance.

Rules of Conduct

The internal auditors shall:

- 16.1. be active only in those scopes of auditors' activities for which they have the necessary knowledge, skills and experience;
- 16.2. perform the auditing in harmony with the Internal Audit Charter, Standards and Manuals issued by the Ministry of Finance;
- 16.3. keep educating themselves constantly in order to have good command of internal audit techniques and Internal audit standards necessary for obtaining, examining and evaluating the information;
- 16.4. update regularly on any changes in Acts and other legal prescriptions regulating their activity scopes and shall observe them in their profession.

17. ETHICAL BEHAVIOUR AND SOUND RELATIONS

The internal auditors shall behave decently and in harmony with the generally recognized moral and ethical principles.

Rules of Conduct

The internal auditors shall:

- 17.1. behave in ethical way and shall not act against legitimate and lawful interests of the audited entity;

- 17.2. co-operate correctly with other entities whose services are constructively related to the activity of the auditee;
- 17.3. behave fairly and correctly towards their colleagues, in a way supporting good relations and co-operation among internal auditors.

18. CONFLICT OF INTERESTS

During auditing the internal auditors shall ensure that their personal interests and ambitions do not become an obstacle for the objective and impartial assessment of activities and events at the audited entity.

Rules of Conduct

The internal auditors shall:

- 18.1. avoid any conflict of interests and gifts which might influence their independence and impartiality;
- 18.2. avoid any relations with senior executives and with other employees of the audited entity the same as with other parties which might influence, compromise or threaten their ability to act independently;
- 18.3. not make use of their official status for private purposes and shall avoid the relations bringing corruption risk or which may cast doubts upon their objectivity

III. GOVERNMENT INTERNAL AUDIT STANDARDS

III. Government Internal Audit Standard

INTRODUCTION

The standards are the criteria by which the operations of Internal Audit are evaluated and measured, to represent the practice of Internal Audit as it should be. They also define the way in which the internal audit service should be established and undertake its functions.

The Standards form two groupings. The **first** encompasses the **organizational** and **structural aspects**; the **second** encompasses the **activity** and **operation** of internal audit:

19. Organizational Standards

19.1 Independence

19.2 Relationships with management, other auditors and review bodies

19.3 Staffing, training and development

20. Operational Standards

20.1 Audit strategy

20.2 Management of audit assignments

20.3 Due professional care

20.4 Reporting

20.5 Quality assurance

DEFINITION OF INTERNAL AUDIT

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.

19 ORGANISATIONAL STANDARDS:

19.1. INDEPENDENCE

19.1.1. The principles of independence

- (a) Internal Audit should be sufficiently independent of the activities which it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. They should have no executive responsibilities.
- (b) Accountability for the response to the advice and recommendations of Internal Audit lies with the line Ministries/Agencies who accept and implement the advice formally.

19.1.2 Organizational independence

- (a) Internal Audit is primarily a service to, and should report directly to the Head of Ministry/Agency.
- (b) The Head of Ministry/Agency should be appraised on the discharge of the responsibilities of Internal Audit.
- (c) The Head of Ministry/Agency should make appropriate arrangements for the provision and management of the budget and resources of internal audit.

19.1.3 Status of the Head of Internal Audit.

The Head of Internal Audit should be of reasonable seniority and experienced to facilitate the effective discussion and negotiation of the results of internal audit work with senior management in the organization.

19.1.4 Independence of individual auditors.

- (a) Individual auditors should have an impartial, unbiased attitude, characterized by integrity and an objective approach to work, and should avoid conflicts of interest. They should not allow external factors to compromise their professional judgement.

- (b) Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had executive responsibility, or in which they have provided consultancy advice. Auditors should not be assigned to assurance work in areas where they have had an executive or other involvement, and where the Head of Internal Audit deems that this may impair their objectivity, until a suitable period has elapsed. The Head of Internal Audit should develop appropriate guidelines for determining the duration of such periods.
- (c) Long-term responsibility for the audit of a particular aspect of an organization can also affect independence; assignment of ongoing audit responsibilities should be rotated from time to time.

19.1.5 Declaration of conflict of interest

- (a) Individual auditors should declare any conflicts of interest arising from audit work assigned to them by the Head of Internal Audit. Such potential conflicts of interest include previous executive or consultancy responsibilities in the same areas and personal relationships with staff with current executive responsibilities.
- (b) Internal audit should plan the allocation of audit work to minimize the risk of conflicts of interest whenever possible.

19.2. RELATIONSHIPS WITH MANAGEMENT, OTHER AUDITORS AND REVIEW BODIES

19.2.1 Principles of good relationship.

Heads of Internal Audit should co-ordinate internal audit plans and activities with line Agencies, other internal auditors, external audit and other review agencies to ensure that the most effective audit coverage is achieved and duplication of effort is minimized.

19.2.2 Relationship with management.

- (a) Internal Audit provides a service to management. Its strategy, planning and delivery should aim to maximize the value added for management.
- (b) Management and staff at all levels of the organization should have complete confidence in the integrity, independence and capability of internal audit. The relationship between internal auditors and line Agencies is a privileged one, and information gained in the course of audit work should remain confidential to those with a legitimate interest within the organization.

- (c) Co-operative relationships with line Agencies enhance the ability of internal audit to achieve its objectives effectively. Audit work should be planned in conjunction with management as far as possible, particularly in respect of the timing of audit work except where unannounced visits are essential to the achievement of the audit objectives.
- (d) When fraud is suspected or detected, decisions to involve external agencies such as the RAA/ ACC/ Police should be reported internally to the Head of the Ministry/Agency.

19.2.3 Relationship with other internal auditors

Where internal auditors need to work with internal auditors of another organization, the roles and responsibilities of each party should be agreed and endorsed by each Head of Ministry/Agency. Whenever possible, agreement should be sought for joint working or placing professional reliance on work carried out by one party.

19.2.4 Relationship with external auditors

- (a) The Head of Internal Audit should seek to discuss common understanding of audit techniques, methods and terminology. In particular, Heads of Internal Audit should offer the external auditor the opportunity to rely on their work where appropriate, provided this does not prejudice Internal Audit's independence.
- (b) In any case of conflict with the external auditor, the Head of Internal Audit will consult with, or refer the matter to the Head of Ministry/Agency.

19.2.5 Relationship with other review bodies.

- (a) Where other assurance and review bodies such as Revenue Audit or compliance teams are in place, internal audit should look for opportunities to gain assurance from their work. If it is intended to place formal reliance on work by such bodies, an appropriate audit or quality assurance exercise should be carried out to ensure that each body's work is carried out to a suitable standard to enable reliance.
- (b) The Head of Internal Audit should establish a means to gain an overview of other assurance providers' work to enable them to identify and consider individual or common material issues or emerging themes. If appropriate, they should be reported to the Head of the Ministry/Agency.

19.3. STAFFING, TRAINING AND DEVELOPMENT

19.3.1 Principles of staffing, training and development.

Internal audit should be appropriately staffed in terms of numbers, position level, qualification levels and experience, keeping in mind its objectives and these Standards. Internal auditors should be properly trained to fulfill their responsibilities and maintain professional competence.

19.3.2 Qualifications of Internal Audit.

- (a) The Internal Auditors should be adequately qualified and have experience in Government functions so that they understand the policies, procedures and work environment. They also should have skill & knowledge required of an Internal Auditor.
- (b) All Internal Audits should be led or supervised by trained Internal Auditors.

19.3.3 Staffing the Internal Audit

- (a) The Internal Audit should have access to the full range of knowledge, skills, qualifications and experience to meet its objectives and these standards. In addition to Internal Audit skills, the Head of Internal Audit should specify any other professional skills which may be needed by the Internal Audit.
- (b) The MoF in coordination with RCSC shall be responsible for recruiting internal auditors with required qualifications and qualities.
- (c) The Internal Audit may seek services of experts/ specialists whose knowledge, training and experience enhances the organization's overall audit capability, and does not jeopardize its compliance with these standards.

19.3.4 Continuing Professional Development

- (a) There shall adequate professional development programmes continuously to maintain and develop their skills.
- (b) The MoF shall make appropriate provision for maintaining and developing the competence of audit staff.

20 OPERATIONAL STANDARDS:

20.1. AUDIT STRATEGY

20.1.1 Developing the internal audit strategy

- (a) The Head of Internal Audit should develop and maintain a strategy for providing the Head of Ministry/Agency with objective evaluation of the effectiveness of the organization's risk management, control and good governance.
- (b) The strategy should also aim to add value for the Ministry's line Departments/ Agencies by providing them with audit analyses, findings and recommendations. In addition, where Internal Audit judges it appropriate, they can offer consultancy to support management in implementing the recommendations.
- (c) The strategy should be developed to meet the audit needs of the organization, as assessed by the Head of Internal Audit, using the organization's objectives and risk assessment as a primary resource.
- (d) The strategy should include provision for the Head of Internal Audit to consider, at least annually, the adequacy of the organization's risk assessment and, if necessary, make recommendations for its review.
- (e) The strategy should include a systematic and prioritized review of how effectively the organization's risks are managed by its policies, procedures and operations.
- (f) The Head of Internal Audit should consider any risk which they think may be material to the organization's risk management, control and governance, even if it is not included in management's risk priorities.
- (g) The strategy should establish the resources and skills required for its delivery.
- (h) The strategy should describe the audit techniques selected as the most effective for delivering the audit objectives.
- (i) The strategy should set out the relative allocation of audit resources between assurance work and consultancy work. The exact allocation will be determined in the periodic plans.

- (j) The strategy should be approved by the Head of Ministry/Agency. This approval should include acceptance of risks or other areas of potential audit coverage which cannot be resourced, and identification of consequent residual risk exposure. The Head of Ministry/Agency should be appraised by the Head of Internal Audit that they are responsible for that residual exposure.

20.1.2 Developing the periodic audit plans

- (a) Internal Audit should prepare periodic work plans, designed to implement the audit strategy, for approval by the Head of Ministry/Agency.
- (b) The periodic plans should set out details of the assignments to be carried out in the period covered by the plan, providing sufficient detail for the Head of the Ministry/Agency and management to understand the assignments' purpose and scope. They should establish the broad resources and skills required for each assignment, and should set relative priorities for each assignment. These periodic plans should be approved by the Head of the Ministry/Agency.
- (c) These periodic audit plans should be kept under review to identify any amendments needed to reflect changing priorities and emerging audit needs. They should make provision for an element of contingency to accommodate audit assignments which could not have been reasonably foreseen. Material changes to the periodic audit plans should be approved by the Head of the Ministry/Agency.

20.2. MANAGEMENT OF AUDIT ASSIGNMENTS

20.2.1 Planning

- (a) For each audit assignment a detailed plan should be prepared and discussed with relevant line Departments/ Agencies. These plans should establish detailed objectives for the assignment, the level of assurance that management wishes to derive from the opinion to be delivered, resource requirements, audit outputs and target dates. They should set out:
 - 1. the scope and objectives and timing of the work to be done, allocating Internal Audit resources and establishing their targets
 - 2. any requirements for participation by line management including supplying IT systems or other data to the auditors

3. the schedule and timing of the assignment
 4. to whom the assignment findings will be disclosed - to the Head of Ministry/Agency. For audits of cross cutting projects, the assignment plan should clearly identify the reporting lines to each Head of Ministry/Agency involved.
- (b) Internal Audit should seek an agency for each assignment, based on the risk area to be audited.
- (c) Assignment plans should be agreed with before work is done, and the agreement recorded. They should take account of any concerns of the Agency about aspects of the policies, procedures and operations within the area to be audited. Any material objection to the assignment plans which cannot be resolved by negotiation should be referred to the Head of Ministry/Agency.

20.2.2 Approach

- (a). Assignments intended to provide an audit opinion should be approached using a risk based systematic approach which should clearly:
1. identify and record the objectives, risks and controls
 2. establish the congruence of the objectives with higher level objectives.
 3. evaluate management's risk analysis, taking account of their acceptance of specific risks
 4. evaluate the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose.
 6. identify any instances of over-control.
 7. evaluate the impact of any decision by management to accept risk(s) rather than transfer or control them.
 8. determine an appropriate strategy to test the effectiveness of risk management and controls.
 9. arrive at conclusions and report, making recommendations as necessary and providing an opinion on the effectiveness of risk management and control in the audited area.

- (b) The scope and objectives, timing, and reporting arrangements should be defined and agreed for consultancy assignments in the same way as for assurance assignments. The objectives should make it clear that the Internal Audits' involvement is in a consultancy role. The Head of Internal Audit will reserve the right to audit any risk management, control and governance processes developed with Internal Audit acting in its consultancy role.
- (c) Internal Audit should apply the risk-based systematic audit approach by independent acquisition and examination of relevant evidence or by using risk and control evaluation methods. At each stage of the assignment, auditors should consider what specific audit work needs to be conducted or to what extent review of evidenced management activity is sufficient to support an independent and objective audit opinion.
- (d) Internal Audit opinion can also be derived by the use of supplementary audit techniques and approaches.
- (e) Internal Audit should obtain and record sufficient relevant evidence to support their conclusions and to demonstrate the adequacy of evidence obtained to support professional judgements.
- (f) Internal Audit should review their findings with the Head of the Department/Agency, making recommendations for dealing with any weaknesses and offering consultancy support if appropriate.
- (g) The Head of Internal Audit should inform the Head of Ministry/Agency of any remaining material weaknesses. The Head of Internal Audit should develop standards and retention requirements for all audit records and documentation, whether they are held on paper or electronically. They should control access to audit records and should obtain the approval of Head of Ministry/ Agency before releasing records to external parties.

20.2.3 Follow Up

- (a) Follow-up will be a review of the effectiveness of management's response to assignments' findings and recommendations. The follow-up findings should be reviewed with the Head of Department/Agency before being reported.
- (b) The Head of Internal Audit should develop procedures to escalate management responses which they judge to be inadequate in relation to the identified risk. These procedures should ensure that the risks of not taking action have been understood and accepted at a sufficiently senior management level.

- (c) Where follow-up reveals a change in the audit opinion, this change should be reported to the Head of Ministry/Agency.

20.3. DUE PROFESSIONAL CARE

20.3.1 Principles of Due Professional Care.

- (a) Due professional care is the care and skill that a reasonably prudent and competent internal auditor will apply in performing his duties.
 - i. Due professional care is working with competence and diligence. It does not imply infallibility or extraordinary performance.
 - ii. Due professional care is the use of audit skills and judgement based on appropriate experience, training, ability, integrity and objectivity.
- (b) Due professional care should be appropriate to the objectives, complexity, nature and materiality of the audit being performed.
- (c) Due professional care is achieved by adherence to these standards.

20.3.2 Organizational arrangements for due professional care

- (a) Internal Audit should develop a programme of review to ensure that due professional care is achieved. This will principally be achieved through quality assurance methodologies.
- (b) Internal Audit should ensure that appropriate processes are available for individual auditors to disclose any suspicions of fraud or improper conduct.
- (c) Internal Audit should make provision in their plans for the training and continuing professional development of all internal audit staff.

20.3.3 Conduct of the individual Internal Auditor

Individual auditors are responsible for ensuring that they conduct their own work with professional care. They should:

- i. be fair and not allow prejudice or bias to override objectivity
- ii. declare any conflicts of interest
- iii. not accept any gifts, inducements, or other benefits from employees, clients, suppliers or other third parties
- iv. consider and document the work needed to achieve audit objectives and the work which they perform in the course of an audit
- v. consider and document the management or other criteria which they use in evaluation of audit findings
- vi. use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions
- vii. be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, lack of economy, ineffectiveness, failure to comply with management policy, and conflicts of interest.
- viii. have sufficient knowledge to identify indicators that fraud may have been committed.
- ix. disclose any indicators identified that fraud may have been committed and recommend any further investigation which may be appropriate.
- x. disclose all material facts known to them which if not disclosed could distort their reports or conceal unlawful practice.
- xi. disclose in reports any non-compliance with these standards.
- xii. not use information which they obtain in the course of their duties for personal benefit or gain.

20.4. REPORTING

20.4.1 Principles of reporting

- (a) The Head of Internal Audit should determine the way in which audit findings will be reported, subject to the provisions of these standards and the requirements of the Head of Ministry/Agency.
- (b) The Head of Internal Audit should set local standards for all reports.
- (c) All audit findings should be promptly discussed with the Head of Department/Agency and provide a written report to the Head of Ministry/Agency.
- (d) The Head of Internal Audit should be entitled to report any risk management, control or governance issue directly to the Head of Ministry/Agency.

20.4.2 Assignment recording and reporting

- (a) Internal Audit's records of each assignment should include:
 - i. the objectives and scope of the assignment.
 - ii. how these objectives have been achieved.
 - iii. a description of the objectives of the area covered by the assignment.
 - iv. the risks, controls and all other material factors examined by the assignment; together with the evaluation criteria employed by the auditors.
 - v. an evaluation of the effectiveness of the risk management, disclosing weaknesses and non-effectiveness, over-control and poor value-for-money.
 - vi. the opinion given.
 - vii. any recommendations for improvement.
 - viii. any areas of disagreement between the auditor and management which cannot be resolved by discussion.
 - ix. disclosure of any relevant non-compliance with any of these standards in the conduct of the audit and the reasons for the non-compliance.
 - x. any indicators of fraud which may have been detected
 - xi. a record of how all these have been reported to the Head of Ministry.

- (b) The Head of Internal Audit should set standards for reporting and should make arrangements for the review and approval of reports by audit management before issue.
- (c) A written report or reports should be issued to the head of Agency at the conclusion of the assignment, encompassing at least Para iii till vii of (a) above. Any audit findings presenting material concerns should be reported to the head of Ministry/Agency as soon as possible.
- (d) Reports should be clear, concise, and constructive. They should be issued promptly and within laid down timescales.
- (e) Reports should be security classified in accordance with organizational policies and with the material covered by the report to avoid unauthorized disclosure of material which would otherwise be subject to a security classification.
- (f) Reports should not be issued to third parties without the approval of Head of the Ministry/Agency.
- (g) In the event of a material error being discovered in a report, this should be corrected and communicated to all who received copies of the report.

20.4.3 Annual reporting and presentation of audit opinion:

- (a) The Head of Internal Audit's formal annual report to the Head of Ministry/Agency should present their opinion of the overall adequacy and effectiveness of the organization's risk management, control and governance processes. It should also:
 - i. disclose any information to that opinion, together with the reasons for the qualification.
 - ii. present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies.
 - iii. compare work actually undertaken with the work which was planned and summarize performance of the internal audit function against its performance measures and criteria.
 - iv. comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

- (b) In addition to the formal annual report, the Head of Internal Audit should make arrangements for interim reporting to the Head of Ministry/Agency 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 formal annual report. The Head of Internal Audit should also provide information required by the Head of Ministry/Agency on an ad hoc basis.

20.5 QUALITY ASSURANCES

20.5.1 Principles of Quality Assurance

- (a) The work of internal audit should be controlled at each level of operation to ensure that a continuously effective level of performance, compliance with these standards, is being maintained.

20.5.2 Management of Internal Audit

- (a) Internal Audit should ensure that internal audit staff at all levels are appropriately supervised throughout all audit assignments to monitor progress, assess quality and coach staff. Supervision should include:
- i ensuring compliance with these standards and local manuals.
 - ii. providing suitable instructions at the outset of an audit.
 - iii. approving audit objectives and work plans.
 - iv. ensuring audits are conducted as planned or that variations are approved.
 - v. ensuring that appropriate audit techniques are used.
 - vi. ensuring that audit findings, conclusions and recommendations are adequately supported by relevant and sufficient evidence.
 - vii. ensuring that reports are accurate, objective, clear, concise and timely.
 - Viii ensuring that work is achieved within approved budgets, or variations are approved.

- (b) The extent of supervision will depend on the experience and training of the individual auditor. Particular care should be taken to ensure that all work by trainee auditors is subject to comprehensive supervision and that trainee auditors never work without the supervision of a qualified auditor.
- (c) The Head of Internal Audit should establish a set of performance measures and criteria for the internal audit function. These measures and criteria should be approved by the Head of Ministry.
- (d) Supervisors should regularly discuss auditors' performance with them and identify any areas in which improvement or training is required.

20.5.3 Internal quality review

- (a) The Head of Internal Audit should make provision for internal quality reviews to be undertaken periodically by experienced members of the internal audit function. These reviews should be undertaken at least every year.
- (b) Internal reviews should appraise
 - 1. the quality of audit work.
 - 2. the quality of supervision.
 - 3. compliance with these standards.
 - 4. compliance with the internal audit manual.
 - 5. the ways in which the internal audit function adds value to the organization.
 - 6. achievement of performance standards / indicators.
- (c) The internal reviews by the Coordinating Agency should include comment on the results of such reviews in the annual internal audit report. Following an internal quality review, the internal auditors involved should develop an action plan for addressing any weaknesses identified.
- (d) Internal reviews should be conducted by reviewing a range of completed and current audit assignments.
- (e) Internal reviews should be conducted according to the approved programme, and subject to the principles of objectivity and the acquisition of evidence contained in these standards.

20.5.4 External quality review

- (a) The Coordinating Agency should make provision for external quality reviews to be commissioned periodically from appropriately qualified and independent reviewers. These reviews should be undertaken at least once every two years. External quality reviews should appraise:
1. the Charter for the internal audit function.
 2. the independence and objectivity of internal audit.
 3. the efficiency and effectiveness of the approach to formulating the audit strategy and plans.
 4. the quality of supervision.
 5. compliance with these standards.
 6. compliance with the internal audit manual.
 7. achievement of performance standards / indicators.
