

# local government application note

for the United Kingdom Public Sector  
Internal Audit Standards  
2019 Edition



**CIPFA**, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

**CIPFA** values all feedback it receives on any aspects of its publications and publishing programme. Please send your comments to [customerservices@cipfa.org](mailto:customerservices@cipfa.org).

Our range of high quality advisory, information and consultancy services help public bodies – from small councils to large central government departments – to deal with the issues that matter today. And our monthly magazine, *Public Finance*, is the most influential and widely read periodical in the field.

Here is just a taste of what we provide:

- TISonline
- Benchmarking
- Advisory and consultancy
- Professional networks
- Property and asset management services
- CIPFA-Penna recruitment services
- Research and statistics
- Seminars and conferences
- Education and training

Call or visit our website to find out more about CIPFA, our products and services – and how we can support you and your organisation in these unparalleled times.

**020 7543 5600**

[customerservices@cipfa.org](mailto:customerservices@cipfa.org)

[www.cipfa.org](http://www.cipfa.org)



# local government application note

for the United Kingdom Public Sector  
Internal Audit Standards  
2019 Edition

Published by:

**CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY**

77 Mansell Street, London E1 8AN

020 7543 5600 \ [customerservices@cipfa.org](mailto:customerservices@cipfa.org) \ [www.cipfa.org](http://www.cipfa.org)

© February 2019 CIPFA

ISBN 978 1 84508 514 8

Designed and typeset by Ministry of Design, Bath  
([www.ministryofdesign.co.uk](http://www.ministryofdesign.co.uk))

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

While every care has been taken in the preparation of this publication, it may contain errors for which the publisher and authors cannot be held responsible.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act, 1988, this publication may be reproduced, stored or transmitted, in any form or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms of licences issued by the Copyright Licensing Agency Ltd. Enquiries concerning reproduction outside those terms should be sent to the publishers at the above mentioned address.

# Contents

|  |           |
|--|-----------|
| <b>CHAPTER 1: INTRODUCTION.....</b>  | <b>1</b>  |
| THE UK PUBLIC SECTOR INTERNAL AUDIT STANDARDS.....   | 2         |
| STATUTORY REQUIREMENTS FOR LOCAL GOVERNMENT .....  | 3         |
| SCOPE AND APPLICABILITY OF THIS APPLICATION NOTE.....  | 4         |
| KEY GOVERNANCE ELEMENTS.....   | 5         |
| <b>CHAPTER 2: OVERARCHING MATERIAL.....</b>  | <b>7</b>  |
| MISSION OF INTERNAL AUDIT .....  | 7         |
| DEFINITION OF INTERNAL AUDITING .....  | 8         |
| CORE PRINCIPLES FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING .....   | 8         |
| CODE OF ETHICS .....   | 9         |
| TERMINOLOGY.....   | 10        |
| <b>CHAPTER 3: ATTRIBUTE STANDARDS .....</b>  | <b>11</b> |
| PURPOSE, AUTHORITY AND RESPONSIBILITY .....  | 11        |
| INDEPENDENCE AND OBJECTIVITY .....   | 14        |
| PROFICIENCY AND DUE PROFESSIONAL CARE .....  | 16        |
| QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME.....   | 16        |
| <b>CHAPTER 4: PERFORMANCE STANDARDS .....</b>  | <b>21</b> |
| MANAGING THE INTERNAL AUDIT ACTIVITY .....   | 21        |
| NATURE OF WORK.....  | 24        |
| ENGAGEMENT PLANNING .....  | 24        |
| PERFORMING THE ENGAGEMENT .....  | 25        |
| COMMUNICATING RESULTS .....  | 25        |
| MONITORING PROGRESS .....  | 27        |
| COMMUNICATING THE ACCEPTANCE OF RISK.....  | 27        |
| <b>OTHER SOURCES OF GUIDANCE .....</b>   | <b>29</b> |
| <b>APPENDIX: CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS AND THE LOCAL<br/>GOVERNMENT APPLICATION NOTE.....</b> | <b>31</b> |



# CHAPTER 1

## Introduction

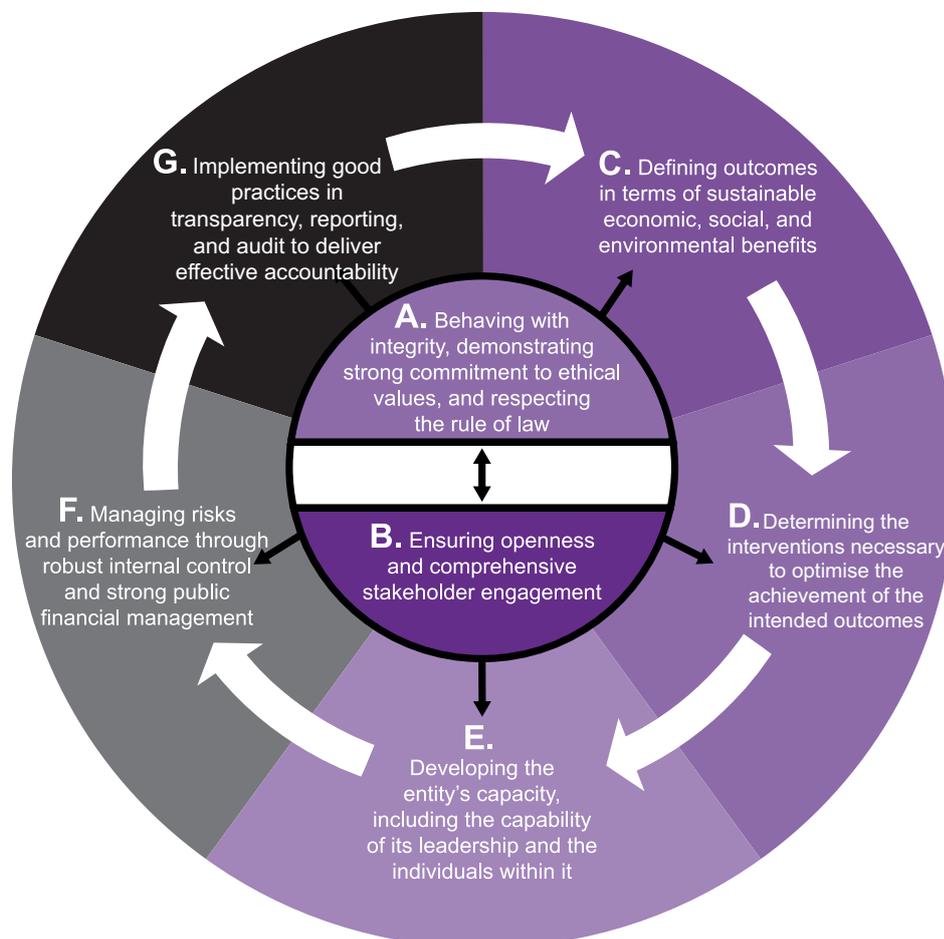
Why it matters that internal audit follows standards.

How UK sector public standards are developed for the local government context.

This publication is addressed to heads of internal audit, internal auditors, audit committee members, internal audit contract managers, external auditors and other stakeholders such as chief financial officers and chief executives.

A professional, independent and objective internal audit service is one of the key elements of good governance in local government. The CIPFA framework *Delivering Good Governance in Local Government* sets out seven principles which support a local government organisation's governance, illustrated in Figure 1.1 here.

**Figure 1.1: Seven principles which support a local government organisation's governance**



Source: *Delivering Good Governance in Local Government: Framework (2016 Edition)*

Internal audit supports Principle G by helping to provide accountability, and also provides assurance on the operation of the other principles and the rest of the governance framework. Having an effective internal audit service is part of the wider accountability system that gives confidence to stakeholders that good governance and strong public financial management are in place. For this reason principal local authorities in the UK are required by statute to have an effective internal audit function which operates effectively and without compromise.

An effective internal audit service should:

- understand the whole organisation, its needs and objectives
- understand its position with respect to the organisation's other sources of assurance and plan its work accordingly
- be seen as a catalyst for improvement at the heart of the organisation
- add value and assist the organisation in achieving its objectives, and
- be forward-looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.

The foundation of an effective internal audit service is compliance with standards and proper practices. Compliance with these will also either confirm that the internal audit service is sufficiently independent and objective or provide clear warning that the local authority is not complying with statutory requirements.

## THE UK PUBLIC SECTOR INTERNAL AUDIT STANDARDS

---

The following bodies have been granted authority to set standards for internal auditing for specific parts of the UK public sector

- HM Treasury in respect of central government
- the Scottish Government, the Department of Finance (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
- CIPFA in respect of local government across the UK.

These bodies are collectively the Relevant Internal Audit Standard Setters (RIASS). The RIASS have agreed that standards for internal auditing should be developed for the UK public sector as a whole by the UK Public Sector Internal Auditing Standards Advisory Board (IASAB). The IASAB members include representatives of the RIASS, public sector internal audit practitioners and other stakeholders in UK public sector internal auditing.

From April 2013 the RIASS adopted a common set of Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors' (IIA Global) International Professional Practices Framework (IPPF). They also include additional requirements and interpretations for the UK public sector, which have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

The PSIAS are updated periodically to reflect changes made to the IPPF while having regard to any additional requirements or interpretations needed for the UK public sector. The most recent revision to the PSIAS was in 2017, and it encompasses the following pronouncements in the IPPF:

- Mission of Internal Audit
- Definition of Internal Auditing
- Core Principles for the Professional Practice of Internal Auditing
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Copies of the most recent revision of the PSIAS can be obtained from the [CIPFA website](#) or from the [IASAB website](#).

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

The PSIAS are designed to apply to any UK public sector organisation. They do not provide detailed guidance on the application of the standards in particular sub-sectors such as central government, local government or health, nor do they provide context for the devolved government jurisdictions in Scotland, Wales and Northern Ireland.

## STATUTORY REQUIREMENTS FOR LOCAL GOVERNMENT

Local government is subject to the following statutory requirements for internal audit:

|   |  |
|---|--|
| <p><b>England</b></p> <p>The Accounts and Audit Regulations 2015</p> <p>Regulation 5</p>  | <p>(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.</p>  |
| <p><b>Scotland</b></p> <p>The Local Authority Accounts (Scotland) Regulations 2014</p> <p>Regulation 7</p>                              | <p>(1) A local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.</p> <p>(3) A local authority must from time to time assess the efficiency and effectiveness of its internal auditing in accordance with the standards and practices referred to in paragraph (1) in this box.</p> |
| <p><b>Wales</b></p> <p>The Accounts and Audit (Wales) Regulations 2014</p> <p>Regulation 7</p>  | <p>(1) A relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.</p> <p>(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.</p>  |
| <p><b>Northern Ireland</b></p> <p>The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015</p> <p>Regulation 6</p> | <p>(1) A local government body must undertake an adequate and effective internal audit of its accounting records and of its system of risk management, internal control and governance processes using internal auditing standards in force from time to time.</p>   |

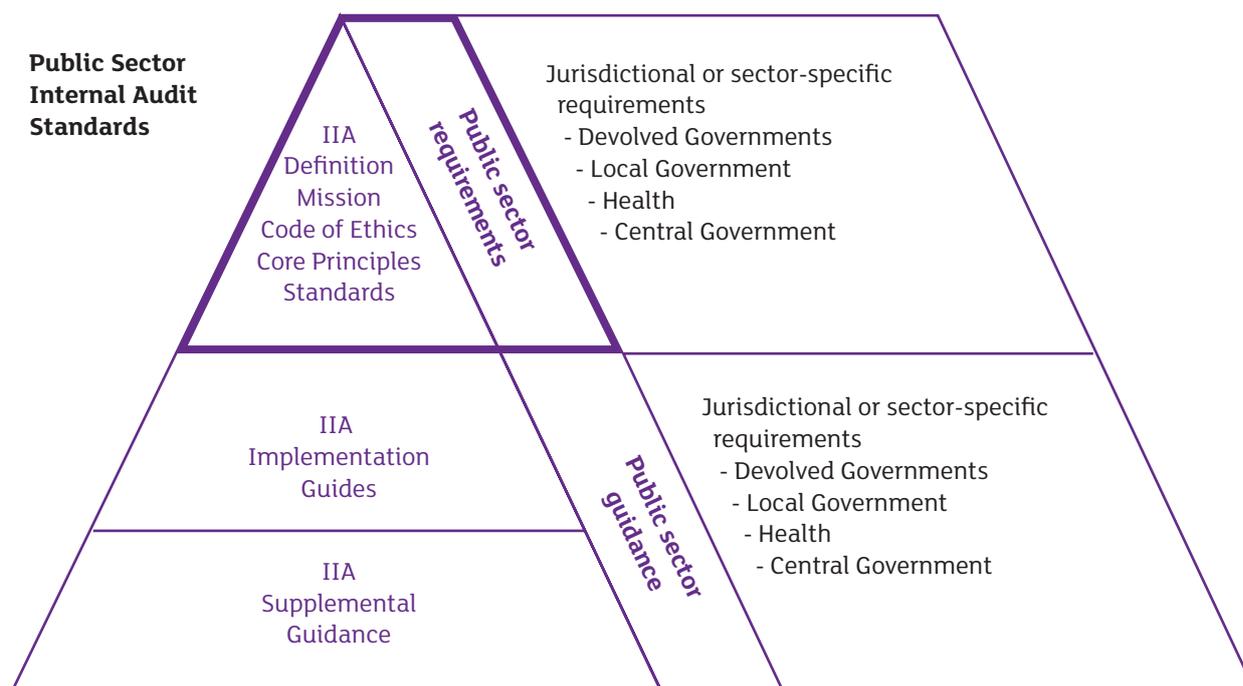
The regulations have been reformulated since the introduction of the PSIAS, and the statutory requirements for England, Scotland and Northern Ireland now refer to standards: the PSIAS taken together with this Local Government application note are the relevant standards to be applied. While the Welsh regulation does not refer explicitly to standards, the PSIAS and this Local Government application note set out the basis for adequate and effective internal audit.

## SCOPE AND APPLICABILITY OF THIS APPLICATION NOTE

This application note sets out requirements for local government internal audit, and other features of local government organisations, to inform application of the UK Public Sector Internal Auditing Standards (PSIAS). The PSIAS and this local government application note (the application note) together supersede previous codes of practice and application notes developed specifically for the local government sector.

The application note has been developed as the sector-specific requirements for local government organisations within the UK Public Sector Internal Audit Framework set out in Figure 1.2.

**Figure 1.2: Sector-specific requirements for local government organisations within the UK Public Sector Internal Audit Framework**



Source: UK Public Sector Internal Audit Standards Advisory Board (IASAB)

The organisations to which the application note applies are identified in the PSIAS as

- local authorities (across the UK)
- the offices of the police and crime commissioners, constabularies, fire authorities, national park authorities, joint committees and joint boards (in England and Wales)
- integration joint boards and Strathclyde Passenger Transport (in Scotland).

For the purposes of the application note, these are referred to collectively as local authorities.

The application note provides further explanation for the PSIAS and practical guidance on how to apply them where it has been deemed necessary to inform application in the local government context. It does not duplicate all the material in the PSIAS and must therefore be read in conjunction with the PSIAS.

## KEY GOVERNANCE ELEMENTS

---

The PSIAS place particular emphasis on the need to interpret the terms ‘board’ and ‘senior management’ in the context of the governance arrangements within each individual public sector organisation. Arrangements vary in structure and terminology between sectors and between organisations within the same sector. This additional emphasis is particularly relevant within local government, where there are a wide variety of management structures, and the role of the board may be fulfilled by the cabinet, full council, audit committee or other groups.

As a result of the range of organisational options across local government, it is not possible to specify how individual local authorities should define ‘board’ or ‘senior management’ in this application note. It is expected that the audit committee, where one exists, will often fulfil the role of the board. However, it is still necessary to consider each occurrence of the term ‘board’ and ‘senior management’ within the PSIAS and decide which group best fits the role in that situation, bearing in mind the requirements for independence and objectivity of the internal audit function.

The statutory requirement for local authorities to have an effective internal audit service will in practice be administered in conjunction with other requirements in relation to internal control, counter-fraud measures and other initiatives. The chief financial officer (CFO) also has specified responsibilities to ensure that there are robust systems of risk management and internal control, and these are reinforced and supported in CIPFA’s statement on *The Role of the Chief Financial Officer in Local Government*. While the requirement to have effective internal audit rests with the authority, the CFO is expected to support internal audit. The relationship between the chief audit executive and the CFO is of particular importance in local government.



# Overarching material

The PSIAS include the following overarching material which sets the context in which the detailed internal auditing standards are to be used:

- Mission of Internal Audit
- Definition of Internal Auditing
- Core Principles for the Professional Practice of Internal Auditing
- Code of Ethics.

The detailed standards provide specific guidance on how internal auditing should be carried out and how the internal audit function should be managed. The Mission, Definition and Core Principles seek to capture what effective internal auditing is about and, taken together with the Code of Ethics, to set out the way it should be carried out.

## MISSION OF INTERNAL AUDIT

---

Section 3 of the PSIAS sets out the Mission of Internal Audit:

*To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.*

The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. It is deliberately placed at the start of the IPPF to be clear that practitioners should leverage the entire framework to facilitate their ability to achieve the mission.

The concept of organisational value for public sector organisations which deliver services to the public may be less straightforward than for organisations which principally exist to make profit. This has a number of implications for the internal audit function, and among other things leads to an increased emphasis on the importance of achieving value for money. The IASAB has provided additional guidance (*What is meant by the term 'organisational value' in the public sector?*, available on the FAQ page on [the IASAB website](#)) on the concept of organisational value for public sector. This is grounded in the holistic approach to organisational value used in <IR> Integrated Reporting, as interpreted in the publication *Focusing on Value Creation in the Public Sector*, jointly produced by CIPFA and the International Integrated Reporting Council (IIRC).

## DEFINITION OF INTERNAL AUDITING

---

Section 4 of the PSIAS sets out the Definition of Internal Auditing:

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*

Internal audit provides an independent and objective opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. It may also undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.

Each local government organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital part in providing assurance that these arrangements are in place and operating properly. The annual internal audit opinion required under the PSIAS informs the governance statement and emphasises and reflects the importance of this aspect of internal audit work. The organisation's response to internal audit activity should lead to the strengthening of the control environment and other factors supporting organisational effectiveness and should thus contribute to the achievement of the organisation's objectives.

To provide optimum benefit, internal audit should work in partnership with management to improve the control environment and help the organisation to achieve its objectives.

## CORE PRINCIPLES FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

---

Section 5 of the PSIAS sets out the Core Principles, explaining that these, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all principles should be present and operating effectively.

The Core Principles require that the internal auditor or the internal audit activity:

- *Demonstrates integrity.*
- *Demonstrates competence and due professional care.*
- *Is objective and free from undue influence (independent).*
- *Aligns with the strategies, objectives, and risks of the organisation.*
- *Is appropriately positioned and adequately resourced.*
- *Demonstrates quality and continuous improvement.*
- *Communicates effectively.*
- *Provides risk-based assurance.*
- *Is insightful, proactive, and future-focused.*
- *Promotes organisational improvement.*

The principles are not as high-level as the mission or the definition, but provide more direction on the essential components of effective internal audit that will be required in

practice. How an internal auditor or an internal audit activity demonstrates achievement of the Core Principles may be quite different from organisation to organisation, but failure to achieve any one of the principles would imply that an internal audit activity was not as effective as it could be in achieving the Mission of Internal Audit.

The inclusion of principles in the PSIAS is intended to demonstrate that the standards are principles-based rather than rules-based. The principles capture the essentials of effective internal audit in a way which is easy to communicate to stakeholders in the audit process, including those whose work is subject to audit, the audit committee and others who receive reports on the results of internal audit work. The principles can also helpfully inform internal and external assessments of the effectiveness of internal audit activity.

## CODE OF ETHICS

Section 6 of the PSIAS sets out the Code of Ethics. It explains that a code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance. The code is framed as guidance to members of the Institute of Internal Auditors, but is applicable to others who provide internal auditing services within the Definition of Internal Auditing: this includes all internal auditors working in public sector organisations using the PSIAS, including internal audit in local government.

The code outlines principles relevant to the profession and practice of internal auditing under four headings:

***Integrity:*** *The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement*

***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 judgements.*

***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.*

***Competency:*** *Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.*

The code expands on each of these by setting out rules of conduct that describe behaviour norms expected of internal auditors.

The PSIAS also require that if an individual internal auditor is a member of another professional body then he or she must also comply with the relevant requirements of that body. CIPFA members and members of the other CCAB bodies are subject to codes based on the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA). This sets out more detailed requirements than those set out in the PSIAS. The general material in Part 1 of the code, which is a standard setting board of the

International Federation of Accountants (IFAC), is directly relevant, as is much of the material in Part 2 *Professional Accountants in Business* (the IFAC code's term for accountants who are not external auditors in public practice).

## TERMINOLOGY

---

The IIA Standards use the term 'chief audit executive' throughout, and this term is also used in the PSIAS and this application note. However, it is recognised that the job title may vary between organisations. There is no intention that organisations should amend the job titles of heads of internal audit or equivalent internal audit posts to 'chief audit executive'.

# CHAPTER 3

## Attribute Standards

Requirements for the organisation.

Requirements for the internal auditor.

Attribute Standards address the characteristics of organisations such as local authorities and the characteristics of the parties providing the internal audit services, whether delivered by an in-house internal audit function, a shared service for one or more local authorities, or an external provider.

### PURPOSE, AUTHORITY AND RESPONSIBILITY

---

#### PSIAS 1000 and 1010

PSIAS 1000 requires the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter. The term ‘internal audit charter’ is now well established in local government, although in some cases a local authority internal audit activity (or function) may instead have terms of reference in the constitution or a strategy, setting out the type of content required by PSIAS 1000 together with relevant statutory requirements in legislation or regulations.

Responsibility for and ownership of the internal audit charter remains with the organisation. PSIAS 1000 requires the chief audit executive (CAE) to review the charter periodically, but final approval resides with the board.

The internal audit charter must set out the scope, nature, and authority of internal audit, and in so doing must do the following:

- Recognise the mandatory nature of the PSIAS (the *Core Principles for the Professional Practice of Internal Auditing*, the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* themselves).
- Define the scope of internal audit activities.
- Establish the responsibilities and objectives of internal audit.
- Establish the organisational independence of internal audit.
- Recognise that internal audit’s remit extends to the entire control environment of the organisation and not just financial controls.
- Establish internal audit’s right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Where the authority carries out functions using shared service arrangements, in partnership with other organisations, or through arm’s length

bodies, these arrangements should incorporate appropriate rights of access which must be described in the internal audit charter.

The internal audit charter must also provide information on accountability, relationships and responsibilities as they impact upon internal audit and must:

- set out the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit
- establish the accountability, reporting lines and relationships between the CAE and:
  - the board
  - those to whom the CAE must report functionally
  - those to whom the CAE may report administratively.

Furthermore, when the internal audit function is delivered through shared service arrangements or by an external provider, the charter must set out the role of the internal audit contract manager in the above.

The public sector requirement also specifies that the charter must:

- define the terms ‘board’ and ‘senior management’ for the purposes of internal audit activity
- cover the arrangements for appropriate resourcing
- define the role of internal audit in any fraud-related work
- describe safeguards to limit impairments of independence or objectivity if internal audit or the CAE undertakes non-audit activities.

The internal audit charter will necessarily have regard to counter-fraud work being carried out either by internal audit staff or through a separate counter-fraud specialism. The charter should also set out relevant arrangements within the organisation’s anti-fraud and anti-corruption policies, requiring the CAE to be notified of all suspected or detected fraud, corruption or impropriety in order to inform his or her annual internal audit opinion and the risk-based plan.

## The ‘board’ in local government

The PSIAS glossary defines the board as:

*The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically, this includes an independent group of directors (eg a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the ‘board’ may refer to the head of the organisation. ‘Board’ may refer to an audit committee to which the governing body has delegated certain functions.*

In a local authority, the role of the board may be satisfied by the audit committee, the cabinet or even full council: it is the responsibility of CAEs and their organisations to decide which group fulfils the definition in each standard and document this in the internal audit charter, and this may require judgment based on how governance arrangements work in practice. For example, audit committees in the police sector cannot generally fulfil the role of

board as they only have an advisory role: while they can make recommendations to a chief constable or PCC, they cannot approve plans or make decisions on resource allocation.

CAEs can take the following steps to ascertain which group fulfils the board definition:

- review the current terms of reference documents for each relevant group
- map the results of that review to the PSIAS and those standards that reference the board
- identify any gaps and work out if there are any other groups or individuals who currently would fulfil the role or in fact whether responsibility for those areas resides with full council
- review the results mapping current arrangements to the PSIAS board references and consider if those arrangements are the most appropriate and effective
- propose amendments to current arrangements if necessary, bearing in mind any real or apparent conflicts of interest that may arise
- discuss proposed arrangements (or current if no changes appear to be required) with the appropriate parties, for example senior management and the chair of the audit committee
- consider any other implications, such as altering terms of reference where roles may need to be altered.

The results of this exercise should then be taken forward and included in the internal audit charter.

In order to facilitate the work of the audit committee and/or the board, the CAE should:

- attend audit committee meetings and contribute to the agenda
- participate in the audit committee's review of its own remit and effectiveness (*CIPFA's Position Statement: Audit Committees in Local Authorities and Police* states that to discharge its responsibilities effectively, the audit committee should report on its performance at least annually)
- seek to ensure that the audit committee receives and understands documents that describe how internal audit will fulfil its objectives (eg the risk-based plan, annual work programmes, progress reports)
- determine whether anything arising from the work of the audit committee requires changes to be made to the audit plan and whether matters arising from the work of internal audit need to be addressed by the audit committee.

The CAE should periodically review whether the internal audit charter needs to be amended to address the requirements in the PSIAS. Alternatively, there may be a potential opportunity to increase the impact of internal audit in the organisation by drawing up a new internal audit charter.

## INDEPENDENCE AND OBJECTIVITY

---

### PSIAS 1100, 1110, 1111, 1112, 1120 and 1130

Various aspects of independence and objectivity are covered in PSIAS 1100 to 1200, including functional reporting lines of the CAE, the relationship between the CAE and the board and any impairment to individual internal auditors' objectivity or independence. Reporting and management arrangements must be put in place that preserve the CAE's independence and objectivity, in particular with regard to the principle that the CAE must be independent of the audited activities.

### Organisational independence

There has been a long-standing debate over the positioning of the CAE within local authorities and in particular to the line management arrangements for that role. PSIAS 1000 expands on this, setting out the relationship between the CAE and the board. As highlighted in previous sections, individual local authority organisations must consider carefully which committee or individual fulfils the role of the board throughout the PSIAS. This is critical in considering independence.

*CIPFA's Statement on The Role of the Head of Internal Audit in Public Service Organisations (2018)* states that organisations need to ensure that the head of internal audit (CAE) is *a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee.*

PSIAS 1110 is similarly 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. The public sector requirement to PSIAS 1110 states that the CAE must report functionally to the board and this is underlined in PSIAS 1111 *Direct Interaction with the Board*, which requires the CAE to communicate and interact directly with the board.

CIPFA and the IIA expect that the CAE should not report administratively to or be managed at a lower organisational level than the corporate management team. These requirements fit with the existing requirement in local authorities, where the head of paid service is responsible for ensuring the organisation has the right officers with the appropriate skills/competencies and the appropriate grade to implement the policies of the local authority.

PSIAS 1110 explains that organisational independence is effectively achieved when the chief audit executive reports functionally to the board. There can be a difference between functional reporting and the line management of the CAE, which can also be influenced by the form of the internal audit provision.

The interpretation to PSIAS 1110 provides examples of functional reporting by the CAE/ internal audit activity to the board. These include the board approving the remuneration of the CAE. However, the public sector interpretation recognises that in the UK public sector, it would be unusual for the board to carry out such a role, although it may be the case where, for example, the internal audit service is supplied by contractors or through a partnership.

The PSIAS do not stipulate an administrative reporting line for local authorities.

Remuneration decisions within individual organisations will depend on the arrangements

within the local authority. Within local government, many CAEs are line managed by the CFO, and functional reporting arrangements need to be in place which avoid this compromising the independence and objectivity of the CAE, in particular the principle that the CAE must be independent of the audited activities.

Organisations must ensure that the CAE's independence is protected so that conflicts of interest, real or perceived, are avoided. The public sector interpretation explains that this can be achieved through the involvement of the chief executive (or equivalent) in the performance appraisal of the CAE and feedback from the chair of the audit committee.

PSIAS 1112 requires specific safeguards where the CAE has responsibilities for matters beyond internal auditing. The public sector interpretation requires the CAE to highlight to the board any matters which might need to be subject to such safeguards and requires the board to periodically review these.

## Objectivity

PSIAS 1120 and 1130 expand upon the principles of integrity and objectivity set out in the Code of Ethics, which require internal auditors to be impartial and unbiased, and to avoid conflicts of personal or professional interest, whether real or perceived. PSIAS 1130 describes what constitutes an impairment to independence or objectivity, and requires that, in situations where it only appears that impairment to objectivity or independence has occurred, 'appropriate parties' have to be informed (determined according to each situation).

In order to avoid real or apparent impairments, internal auditors should:

- declare interests in accordance with the requirements set by the organisation on the type and nature of interests that should be declared
- not accept 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 use information obtained during the course of duties for personal gain
- disclose all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements.

The interpretation to PSIAS 1130 notes that impairments to objectivity may arise through individual conflicts of interest or may be imposed externally by limiting the scope of internal audit activity through *restrictions on access to records, personnel and properties or through resource limitations, such as funding*.

PSIAS 1130.A1 and .A2 set out conditions which must be satisfied if an internal auditor has previously had operational responsibilities or when the CAE has responsibilities for other functions and audits are required in those areas.

The CAE should be alert to the fact that long-term responsibility for the audit of a particular activity in an organisation can lead to over-familiarity and complacency that could influence objectivity. The CAE should consider whether this risk needs to be managed, for example by rotating ongoing audit responsibilities from time to time within the internal audit team. The CAE will need to have regard to staff resources available, including specialist skills and knowledge where appropriate.

While good working 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.

The public sector requirement requires the board's approval for any 'significant' additional consulting services that have not already been included in the audit plan. 'Significant' is not defined in the PSIAS but should be considered in the context of the specific organisation.

## PROFICIENCY AND DUE PROFESSIONAL CARE

---

### PSIAS 1200, 1210, 1220 and 1230

PSIAS 1200 states that the CAE must be professionally qualified and suitably experienced. The subsequent standards set out specific requirements for all internal audit staff to be competent, to exercise due professional care, and to maintain their competence.

The CAE is responsible for recruiting appropriate staff, in accordance with the organisation's HR processes. This will normally require up-to-date job descriptions that reflect roles and responsibilities and person specifications which define the required qualifications, competencies, skills, experience and personal attributes. The CAE should periodically assess individual auditors against the skills and competencies set out in the relevant job descriptions and person specifications. 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 by applying CIPFA's approach to CPD, or through the organisation's own appraisal and development programme. Auditors should maintain a record of such professional training and development activities.

In order for the authority to meet its statutory responsibilities, internal audit needs to be appropriately resourced to meet its objectives. The internal audit activity should have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and to comply with these standards. PSIAS 1210.A1 explicitly requires that the CAE must obtain competent advice and assistance if the internal audit activity is unable to perform all or part of an engagement.

## QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

---

### PSIAS 1300, 1310, 1311, 1312, 1320, 1321 and 1322

The Quality Assurance and Improvement Programme (QAIP) has been designed by the IIA Global to assist in improving the performance of internal audit. Applying this across the public sector will help promote consistency and improvement. The QAIP was a new requirement for local authorities when the PSIAS were introduced in 2013, but echoed

statutory requirements for many authorities to conduct reviews of the effectiveness of internal audit. (This requirement has since been removed from the regulations for England on the understanding that review will arise automatically from the application of the PSIAS).

PSIAS require the CAE to develop and maintain a QAIP to enable the internal audit activity to be assessed against the PSIAS (ie the Mission of Internal Audit, Definition of Internal Auditing, Core Principles, Code of Ethics and the standards themselves) for conformance. The interpretation to PSIAS 1300 states that the QAIP is designed both to assess conformance with the PSIAS and also to assess the efficiency and effectiveness of the internal audit activity and identify areas for improvement. Assessments of local authority conformance with the PSIAS should use this application note for guidance.

PSIAS 1310 clearly states that a QAIP must include both internal and external assessments. Internal assessments can be carried out on an ongoing basis and periodically. As a minimum requirement, an external assessment must be undertaken at least once every five years. By 31 March 2018, all authorities should have completed at least one external assessment of internal audit.

### **Internal assessments**

Ongoing internal assessment can be carried out through performance monitoring which the CAE uses to manage the internal audit activity. When the CAE establishes policies and procedures to guide staff in performing their duties, these should both ensure that work conforms to the PSIAS and should provide evidence of conformance. This may be done in various ways, including maintaining an audit manual and the use of electronic audit management systems.

Assessments will also need to determine that audit work is carried out to the appropriate level of quality and that audit work has been allocated to staff with the appropriate skills, experience and competence. The assessment should also verify 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.
- An action plan to implement improvements.

Periodic assessment will include a review of the internal audit charter, the role of the CAE within the organisation, and other structural features of the internal audit activity to confirm that these are sufficient to achieve the Mission of Internal Audit in line with the Core Principles. It may incorporate further review of engagement working papers on a test basis to confirm that individual pieces of internal audit work have been carried out in line with the PSIAS. It could also involve other people within the organisation who have knowledge of internal audit, for example senior management and members of the audit committee. It may

also include a review of the activity against the risk-based plan and the achievement of its aims and objectives. The results of this should inform future risk-based planning.

A checklist for assessing conformance is included in this application note. This covers both the requirements of the PSIAS and the content of this application note. Other checklists such as that provided by the CIIA may also be useful, but, when using these, references to the International Professional Practices Framework should be read as referring to 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'.

PSIAS 1312 states that the CAE must discuss the format of the external assessments with the board: this discussion should reflect the relative costs of the different approaches, the potential advantages of an external viewpoint, and whether there are factors which might be considered to warrant a demonstrably independent assessment.

Whichever approach is used, an independent person or team must be sourced in line with requirements in the PSIAS that arrangements are put in place to avoid conflict of interest and impairment to objectivity.

The external assessor or assessment team must be appropriately qualified to carry out the full external assessment or independent external validation, and the PSIAS specify that they must be competent both in the professional practice of internal audit and the process of external assessment. This is particularly important where a system of peer review is set up to provide the external assessment.

It is possible that a local authority's external auditor may be appropriately independent to act as the external assessor or assessment team. However, this will normally require a separate review to be performed: review of internal audit carried out as part of the external audit will not normally correspond with the requirements for external assessment.

The public sector requirement mandates that local authorities must find an 'appropriate sponsor'. This requirement is intended to further safeguard the independence of the external assessment process. The public sector requirement suggests that the sponsor could be the audit committee chair or the accounting/accountable officer. The latter terms are not generally used in local government, but depending on the local authority's structure, the sponsor could be another officer within the organisation (for example, the CFO or chief executive officer). The IASAB website provides additional guidance on the role of the sponsor, including the circumstances where the internal audit service is provided through a shared service arrangement.

A checklist for assessing conformance is included in this application note. This covers both the requirements of the PSIAS and the content of this application note. Other checklists such as that provided by the CIIA may also be useful, but, when using these, references to the International Professional Practices Framework should be read as referring to the

Public Sector Internal Audit Standards in its entirety, together with this application note as guidance.

### **Reporting on the QAIP and disclosure of non-conformance**

PSIAS 1320 requires the CAE to communicate the results of the QAIP to senior management and the board, providing information on the scope and frequency of internal and external assessments, the qualifications and level of independence of the assessors, their conclusions, and any corrective action plans. The public sector requirement requires progress against any improvement plans to be reported.

The PSIAS requires non-conformance with standards to be disclosed when it impacts the overall scope or operation of the internal audit activity. The additional public sector requirement requires such instances of non-conformance to be reported to the board and considered for inclusion in the governance statement.



# Performance Standards

Measuring how well internal audit does its job.

The Performance Standards describe the nature of internal audit services, and also provide quality criteria against which the performance of an internal audit function can be measured.

## MANAGING THE INTERNAL AUDIT ACTIVITY

---

### PSIAS 2000, 2010, 2020, 2030, 2040, 2050, 2060 and 2070

The internal audit activity is effectively managed when it achieves the purposes set out in the internal audit charter, in accordance with relevant codes and standards, and having regard to trends and emerging issues that affect the objectives and risks of the organisation.

### Planning

The PSIAS require the CAE to develop a risk-based plan. This must incorporate or be linked to a strategic high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter. It must also explain how the planned assurance delivery links to the organisational objectives and priorities. It should outline the assignments to be carried out, their respective priorities and the estimated resources needed. The plan should differentiate between assurance and other work.

The public sector requirement in PSIAS 2010 states that the risk-based plan must incorporate or be linked to a “strategic or high-level statement of how the internal audit service will be delivered and developed”. The plan must therefore include some strategic elements, for example by showing how internal audit’s work will identify and address local and national issues and risks over successive annual cycles.

The risk-based plan should be fixed for a period of no longer than one year and should be sufficiently flexible to reflect the changing risks and priorities of the organisation. Internal auditors should keep risks under regular review and consider how their audit plans should respond to changing risks. This may result in more frequent reviews of the plan or for plans to cover periods of less than one year.

### Minimum level of coverage

Neither the PSIAS nor this application note set out a formula to determine an appropriate level of internal audit coverage. However, as a guide, the minimum level of coverage is that required to support an annual evidence-based opinion. Local factors within each organisation will determine this minimum level of coverage (for example, the level of assurance provided by other providers).

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 in order to conform with PSIAS and for the authority to comply with statutory requirements.

The development of a risk-based audit plan should have regard to:

- any declarations of interest and other potential conflicts of interest
- any requirement to use specialists, eg IT or contract and procurement auditors
- the need to balance the range of reviews to be delivered, for example systems and risk-based reviews, specific key control testing, benchmarking exercises and/or value for money studies
- the relative risk maturity of the organisation.

The plan will need to consider resource and time requirements for the planning process and other mandatory governance and reporting requirements, including regular reporting to the board, the development of the annual report, the QAIP and the CAE opinion. It may also be helpful to allow contingency time for ad hoc consultancy and advisory support.

Where the CAE is responsible for counter fraud as well as internal audit, CIPFA recommends that there should be separate plans for the two functions rather than being incorporated into a single plan. This will help safeguard CAE independence as required by 1112.

## Communication and approval

The CAE must present the risk-based plan to senior management and the board for review and approval. In many local government organisations, the audit committee will fulfil the role of the board for this purpose. Where this is not the case, the role of the audit committee is still important: in line with current best practice set out in *Audit Committees: Practical Guidance for Local Authorities and Police* (CIPFA, 2018), the audit committee could have a role to *review and advise on* the risk-based plan or the internal audit budget and resource plan.

## Resource management

The PSIAS require the risk-based plan to explain how internal audit resource requirements have been assessed. They also require the CAE to bring to the attention of the board the potential consequences where they believe that insufficient audit resources will impact on the provision of the annual audit opinion. Best practice for audit committees is that they should support them in doing this.

*The core functions of an audit committee [include] in relation to the authority's internal audit functions:*

- *oversee its independence, objectivity, performance and professionalism*
- *support the effectiveness of the internal audit process*
- *promote the effective use of internal audit within the assurance framework.*

*Source: Position Statement: Audit Committees in Local Authorities and Police (CIPFA, 2018).*

PSIAS 2030 requires the CAE to ensure that internal audit resources are 'effectively deployed' to achieve the approved risk-based plan. Audit work, and especially its timing, should be

planned in conjunction with management to minimise disruption to the activity being audited unless, for example, this might jeopardise the ‘challenge’ aspect of internal audit work or unannounced visits are necessary to provide the required level of assurance.

Once the work requirement 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.

## **Policies and procedures**

PSIAS 2040 requires the CAE to establish policies and procedures to guide the internal audit activity. The nature and form of these will be dependent upon the size and structure of the internal audit activity and the complexity of its work, but they should be designed to:

- allocate work to staff with the appropriate skills, experience and competence
- provide for appropriate supervision and review, mentoring and coaching of staff
- facilitate progress monitoring
- ensure that work conforms to the PSIAS
- provide evidence of conformance for QAIP and other review.

The policies and procedures should be regularly reviewed and updated to reflect changes in working practices and standards.

## **Coordination**

PSIAS 2050 requires the CAE to make arrangements to share information and coordinate activities with other internal and external providers of assurance to ensure there is adequate coverage and to minimise duplication of effort. They may also carry out an assurance mapping exercise or make use of assurance mapping carried out by other assurance providers.

The CAE should seek to meet regularly with the nominated external audit representative to consult on and coordinate their respective plans and, if appropriate, to discuss how work can be tailored to satisfy each party’s responsibilities in areas of common interest. Such meetings are an opportunity to discuss matters of mutual interest and to help develop both parties’ understanding of the organisation.

In a local authority, it is likely that some of the key organisational risks relate to work it undertakes through partnerships. Internal auditors then need to obtain assurance that the risks to the organisation of working in partnership are being appropriately managed as well as whether 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, and, in this case, the CAE must determine that the assurance provided is sufficient, based on a clear understanding of the scope, objectives and results of that work and the competence of the assurance provider. Where it is necessary to obtain assurance directly, internal auditors will need to obtain access to the staff and records at the partner organisation and ensure that this is sufficient to provide the evidence for their work.

It may be that the CAE is also required to provide assurance to partner organisations or arm's length bodies such as trading companies. This is acceptable under PSIAS, provided the risks of doing so are managed effectively. In such situations, the CAE must also have regard to the fact that their primary responsibility is to the management of their employing organisation or, if internal audit is provided as a shared service arrangement or by an external service provider, the body for which they have been engaged to provide internal audit services.

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

PSIAS 2060 sets out requirements for what should be communicated to senior management and the board in various communications. While the key communications are the initial approval of the risk-based plan and the final annual report and opinion, the CAE should generally make arrangements for interim reporting 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 drafting the annual governance statement.

## **NATURE OF WORK**

---

### **PSIAS 2100, 2110, 2120 and 2130**

These PSIAS set out the main aspects of the organisation's activity where internal audit activity must contribute to improvement: governance, risk management and internal control. This approach has long been embedded in local authorities, where it is designed to help management to produce a credible and well-founded annual governance statement.

PSIAS 2120.A2 states that the internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk. CIPFA has issued a *Code of Practice on Managing the Risk of Fraud and Corruption*. While compliance with the code is voluntary, CIPFA strongly recommends that it is used as the basis for assessment of how an authority manages its fraud risk.

## **ENGAGEMENT PLANNING**

---

### **PSIAS 2200, 2201, 2210, 2220, 2230 and 2240**

These PSIAS provide more detail on how planning should be carried out at the engagement level, including the key requirement that a brief should be agreed with relevant managers. The brief should establish the objectives, scope and timing for the assignment and its resource and reporting requirements. The risk-based approach should also be applied at engagement level.

The public sector interpretation to PSIAS 2210.A3 acts as a reminder that engagement objectives in the public sector should, where appropriate to the engagement, include value for money criteria – economy, efficiency and effectiveness. The use of all the organisation's main types of resources including money, people and assets should be considered.

## PERFORMING THE ENGAGEMENT

### PSIAS 2300, 2310, 2320, 2330 and 2340

These PSIAS set out requirements for performing engagements, including identifying sufficient information, analysis and evaluation of that information, documentation of results and conclusions, and requirements for supervision, quality assurance and staff development.

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. Additionally, while the primary responsibility for the prevention and detection of fraud lies with management, in any scrutiny involving use of funds or other resources, internal auditors should be alert to the possibility of intentional wrongdoing and potential conflicts of interest. They must also have sufficient knowledge to recognise indicators of possible fraud.

The CAE should have systems in place to ensure that auditors obtain and record sufficient evidence to support their conclusions, professional judgements and recommendations. Working papers should 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 should also specify how long audit documentation should be retained, whether held on paper or electronically, having regard to organisational policy and statutory requirements.

All engagements should be subject to appropriate supervision and review to ensure that audit work is of sufficient quality, and documentation of this process should be retained.

## COMMUNICATING RESULTS

### PSIAS 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, including the organisation's partners in the voluntary sector and other parts of the public sector, the general public, and 'armchair auditors' and other stakeholders who the government expects to scrutinise local authority activities. The Freedom of Information Act 2000, or equivalent, 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 directly in the PSIAS, the Code of Ethics requires that internal auditors should disclose all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice. This requirement needs to be balanced with confidentiality requirements.

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

- Give an opinion on the risk and controls of the area under review, building up to the annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

- Prompt management to implement the agreed actions for change leading to improvement in the control environment and performance.
- 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.

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, ie 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 Public Sector Requirement in PSIAS 2450 requires that 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 framework – ie the control environment
- a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance providers)
- a statement on conformance with the PSIAS and the results of the Quality Assurance and Improvement Programme.

In local government, the annual opinion should be guided by the CIPFA Framework *Delivering Good Governance in Local Government*.

The annual report 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
- 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.

In the context of the PSIAS, 'opinion' means that internal audit will have done sufficient, evidenced work to form a supportable conclusion about the activity that it has examined. Internal audit will word its opinion appropriately if it cannot give reasonable assurance (eg because of limitations to the scope of, or adverse findings arising from, its work).

## MONITORING PROGRESS

---

### PSIAS Standard 2500

The PSIAS require a system to be in place for monitoring progress with management actions relating to audit findings, to confirm that these have been effectively implemented or, if not, that senior management have accepted the risk of not taking action.

The CAE should develop a procedure to document the follow-up of audit recommendations. There should also be an escalation procedure for cases where significant agreed actions have not been effectively implemented by the date agreed. These procedures should be designed to ensure that the risks of not taking action have been understood and accepted at a sufficiently senior management level. Effective involvement of the board in the follow-up process is critical. Where agreed actions have not been implemented, the CAE should consider whether it is necessary to revise the internal audit opinion.

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

## COMMUNICATING THE ACCEPTANCE OF RISK

---

### PSIAS Standard 2600

PSIAS 2600 sets out requirements which apply to the difficult circumstance where, based on the findings of audit work or other information, it appears that management has accepted a level of risk that may be unacceptable to the organisation. The CAE is required to discuss the matter with senior management, and, if the matter is not resolved, it must be communicated to the board.

Situations of this kind are expected to be rare. A key point is that the PSIAS 2600 sets out communication requirements for the CAE. It is not the responsibility of the CAE to resolve the risk.



# Other sources of guidance

If internal auditors in local government require further guidance on issues not covered by this application note, they can refer to other sources of assistance. They may of course be interested in guidance which ranges wider than internal audit, although their principal interests will be in governance matters as they relate to UK local government.

CIPFA provides guidance through its TISonline service, the CIPFA Better Governance Forum and the CIPFA website. CIPFA has recently updated its guidance on the *Role of the Head of Internal Audit in Public Service Organisations* having regard to the Core Principles in the PSIAS.

There is a developing body of guidance on the website of the [UK Public Sector Internal Auditing Standards Advisory Board](#).

IIA members also have access to the non-mandatory elements of the IPPF, such as the IIA Global's Implementation Guidance and Supplemental Guidance, as well as to other advisory materials produced by the IIA for the UK.



# Checklist for assessing conformance with the PSIAS and the local government application note

This checklist has been developed to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. It incorporates the requirements of the PSIAS as well as the application note in order to give comprehensive coverage of both documents.

The checklist sets out questions which should be considered to determine whether particular aspects of the internal audit activity conform, partially conform or fail to conform with the requirements of the PSIAS and the Local Government application note.

Evidence for each response must be provided in or referenced from the checklist and reasons for any partial or full non-conformance should be given, together with any compensating measures in place or actions in progress to address this.

In developing an overall view of conformance with the PSIAS guided by this application note, particular attention should be paid to the front sections on the Mission of Internal Audit, Definition of Internal Auditing, Core Principles and Code of Ethics, which bring together more detailed consideration of conformance with individual standards.

In practice, in developing an overall assessment of conformance with the PSIAS, the key consideration of the assessor will be how the evidence gathered on conformance with the detailed standards and Code of Ethics supports the assessment of conformance with each of the Core Principles.

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| <b>1 Mission of Internal Audit</b>   |         |                |                     |
| Based on your review of conformance with other requirements of the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), does the internal audit activity aspire to accomplish the Mission of Internal Audit as set out in the PSIAS? |         |                |                     |
| <i>To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.</i>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| <b>2 Definition of Internal Auditing</b>  |         |                |                     |
| Based on your review of conformance with other requirements of the PSIAS and LGAN, is the internal audit activity independent and objective?  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| Based on your review of conformance with other requirements of the PSIAS and LGAN, does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation? |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| <b>3 Core Principles</b>   |         |                |                     |
| The Core Principles, taken as a whole, articulate internal audit effectiveness, and provide a basis for considering whether the review of conformance with the attribute standards and performance standards reflects full conformance, partial conformance or non-conformance with the PSIAS and the Local Government Application Note. In making this assessment, the assessor should have regard to positive evidence of conformance or non-conformance and the lack of evidence of non-conformance where positive evidence is difficult to obtain. |         |                |                     |
| Where there are instances of partial conformance or non-conformance in particular areas, you may need to make a judgment having regard to materiality and other factors in order to form a view on whether the internal audit activity conforms with a particular Core Principle. Any such judgments should be highlighted and explained.  |         |                |                     |
| <b>Demonstrates integrity.</b>   |         |                |                     |
| Having regard to your review of conformance with the Code of Ethics (Integrity, Seven Principles of Public Life), do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating integrity?  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider  | Evidence / comments |
|--|---------------------|
| <p><b>Demonstrates competence and due professional care.</b></p> <p>Having regard to your review of conformance with the Code of Ethics (Competence, Confidentiality, Seven Principles of Public Life) and any other evidence from the review of conformance with Standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating competence and due professional care?</p> <p>CONFORMS      PARTIAL      NOT CONFORMING</p> |                     |
| <p><b>Is objective and free from undue influence (independent).</b></p> <p>Having regard to your review of conformance with the Code of Ethics (Objectivity, Seven Principles of Public Life) and any other evidence from the review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being objective and free from undue influence (independent)?</p> <p>CONFORMS      PARTIAL      NOT CONFORMING</p> |                     |
| <p><b>Aligns with the strategies, objectives, and risks of the organisation.</b></p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being aligned with the strategies, objectives, and risks of the organisation?</p> <p>CONFORMS      PARTIAL      NOT CONFORMING</p>  |                     |
| <p><b>Is appropriately positioned and adequately resourced.</b></p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being appropriately positioned and adequately resourced?</p> <p>CONFORMS      PARTIAL      NOT CONFORMING</p>  |                     |
| <p><b>Demonstrates quality and continuous improvement.</b></p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating quality and continuous improvement?</p> <p>CONFORMS      PARTIAL      NOT CONFORMING</p>  |                     |
| <p><b>Communicates effectively.</b></p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by communicating effectively?</p> <p>CONFORMS      PARTIAL      NOT CONFORMING</p>  |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| <b>Provides risk-based assurance.</b>   |         |                |                     |
| Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by providing risk-based assurance, based on adequate risk assessment? |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <b>Is insightful, proactive, and future-focused.</b>  |         |                |                     |
| Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being insightful, proactive, and future-focused?                   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <b>Promotes organisational improvement.</b>   |         |                |                     |
| Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by promoting organisational improvement?                              |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| <b>4 Code of Ethics</b>  |         |                |                     |
| <b>Integrity</b>   |         |                |                     |
| Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display integrity by:  |         |                |                     |
| <ul style="list-style-type: none"> <li>■ Performing their work with honesty, diligence and responsibility?</li> <li>■ Observing the law and making disclosures expected by the law and the profession?</li> <li>■ Not knowingly partaking in any illegal activity nor engaging in acts that are discreditable to the profession of internal auditing or to the organisation?</li> <li>■ Respecting and contributing to the legitimate and ethical objectives of the organisation?</li> </ul> |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>Objectivity</b>   |         |                |                     |
| Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display objectivity by:  |         |                |                     |
| <ul style="list-style-type: none"> <li>■ Not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?</li> <li>■ Not accepting anything that may impair or be presumed to impair their professional judgement?</li> <li>■ Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review?</li> </ul>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| <b>Confidentiality</b>   |         |                |                     |
| <p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display due respect and care by:</p> <ul style="list-style-type: none"> <li>■ Acting prudently when using information acquired in the course of their duties and protecting that information?</li> <li>■ Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation?</li> </ul> |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>Competency</b>  |         |                |                     |
| <p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display competence by:</p> <ul style="list-style-type: none"> <li>■ Only carrying out services for which they have the necessary knowledge, skills and experience?</li> <li>■ Performing services in accordance with the PSIAS?</li> <li>■ Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes?</li> </ul>                 |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>Seven Principles of Public Life</b>   |         |                |                     |
| <p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors, whether consciously or through conformance with organisational procedures and norms, have due regard to the Committee on Standards of Public Life's <i>Seven Principles of Public Life</i>?</p>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| <b>Standards</b>   |         |                |                     |
| <b>5 Attribute Standards</b>   |         |                |                     |
| <b>5.1 1000 Purpose, Authority and Responsibility</b>  |         |                |                     |
| <p>The questions in this section seek to confirm that the purpose, authority and responsibility of the internal audit activity have been properly defined consistent with the PSIAS, formally approved in an internal audit charter and periodically reviewed.</p>   |         |                |                     |
| <p>Does the internal audit charter conform with the PSIAS by including a formal definition of:</p> <ul style="list-style-type: none"> <li>■ the purpose</li> <li>■ the authority, and</li> <li>■ the responsibility</li> </ul> <p>of the internal audit activity consistent with the Public Sector Internal Audit Standards (PSIAS)?</p> |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| <p>Does the internal audit charter conform with the PSIAS by clearly and appropriately defining the terms ‘board’ and ‘senior management’ for the purposes of the internal audit activity?</p> <p>Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances.</p>   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Does the internal audit charter also:</p> <ul style="list-style-type: none"> <li>■ Set out the internal audit activity’s position within the organisation?</li> <li>■ Establish the chief audit executive’s (CAE) functional reporting relationship with the board?</li> <li>■ Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively? Where applicable, this will need to encompass shared service or external providers of internal audit, and the role of the contract manager.</li> <li>■ Establish the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit?</li> <li>■ Establish internal audit’s right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?</li> <li>■ Define the scope of internal audit activities?</li> <li>■ Recognise that internal audit’s remit extends to the entire control environment of the organisation?</li> <li>■ Establish the organisational independence of internal audit?</li> <li>■ Cover the arrangements for appropriate resourcing?</li> <li>■ Define the role of internal audit in any fraud-related work?</li> <li>■ Set out the existing arrangements within the organisation’s anti-fraud and anti-corruption policies, requiring the CAE to be notified of all suspected or detected fraud, corruption or impropriety?</li> <li>■ Include arrangements for avoiding conflicts of interest if internal audit or the CAE undertakes non-audit activities?</li> <li>■ Define the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation?</li> <li>■ Define the nature of consulting services?</li> <li>■ Recognise the mandatory nature of the PSIAS?</li> </ul> |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| Does the CAE periodically review the internal audit charter and present it to senior management and the board for approval?                                       |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <b>5.2 1100 Independence and Objectivity</b>  |         |                |                     |
| The questions in this section seek to confirm that the internal audit activity is independent and internal auditors are objective in performing their work.       |         |                |                     |
| Does the CAE have direct and unrestricted access to senior management and the board?  |         |                |                     |
| Does the CAE have free and unfettered access to, as well as communicate effectively with, the chief executive or equivalent and the chair of the audit committee? |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| Does the CAE attend audit committee meetings?   |         |                |                     |
| Does the CAE contribute to audit committee agendas?   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| Are threats to objectivity identified and managed at the following levels:  |         |                |                     |
| <ul style="list-style-type: none"> <li>■ Individual auditor?</li> <li>■ Engagement?</li> <li>■ Functional?</li> <li>■ Organisation?</li> </ul>                    |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <b>1110 Organisational Independence</b>   |         |                |                     |
| This subsection seeks to confirm that reporting and management arrangements been put in place that preserve the CAE's independence and objectivity.               |         |                |                     |
| This is of particular importance when the CAE is line-managed by another officer of the authority.  |         |                |                     |
| Does the CAE report to an organisational level equal or higher to the corporate management team?  |         |                |                     |
| Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?                                    |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| <p>Does the CAE’s position in the management structure:</p> <ul style="list-style-type: none"> <li>■ Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board?</li> <li>■ Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management?</li> </ul>   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent?</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Is the organisational independence of internal audit realised by functional reporting by the CAE to the board?</p> <p>The ‘Interpretation’ to PSIAS 1110 provides examples of factors which may indicate that the CAE reports functionally to the Board, which include where the board:</p> <ul style="list-style-type: none"> <li>■ approves the internal audit charter</li> <li>■ approves the risk-based audit plan</li> <li>■ approves the internal audit budget and resource plan</li> <li>■ receives communications from the CAE on the activity’s performance (in relation to the plan, for example)</li> <li>■ approves decisions relating to the appointment and removal of the CAE</li> <li>■ approves the remuneration of the CAE</li> <li>■ seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations.</li> </ul> <p>The Public Sector Interpretation to PSIAS 1110 notes that board approval of CAE remuneration does not generally happen in the UK public sector, and that the underlying principle is therefore that the independence of the CAE must be safeguarded by ensuring that their remuneration or performance assessment is not inappropriately influenced by those subject to audit.</p> <p>EQA assessors should therefore consider whether adequate steps are taken to safeguard the independence of the CAE by ensuring that remuneration or performance assessment is not inappropriately influenced by those subject to audit. This might for example reflect some involvement of the chief executive in the performance assessment process or feedback from the audit committee chair.</p> |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p><b>1111 Direct Interaction with the Board</b></p>  |         |                |                     |
| <p>Does the CAE communicate and interact directly with the board?</p>   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| <b>1112 Chief Audit Executive Roles Beyond Internal Auditing</b>  |         |                |                     |
| Where the CAE has roles or responsibilities that fall outside of internal auditing, are adequate safeguards in place to limit impairments to independence or objectivity?   |         |                |                     |
| Does the board periodically review these safeguards?  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <b>1120 Individual Objectivity</b>  |         |                |                     |
| Do internal auditors have an impartial, unbiased attitude?  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| Do internal auditors avoid any conflict of interest, whether apparent or actual?  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <b>1130 Impairment to Independence or Objectivity</b>   |         |                |                     |
| If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)? |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| Does review indicate that work allocations have operated so that internal auditors have not assessed specific operations for which they have been responsible within the previous year?   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| Is the risk of over-familiarity or complacency managed effectively: for example by rotating assignments for ongoing assurance engagements and other audit responsibilities periodically within the internal audit team?   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| Have internal auditors declared interests in accordance with organisational requirements?   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| Where any internal auditor has accepted 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), has this been declared and investigated fully?                   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   | Evidence / comments |                |
|---|---------------------|----------------|
| Does review indicate that no instances have been identified where an internal auditor has used information obtained during the course of duties for personal gain?  |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |
| Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?   |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |
| If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?   |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |
| Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?  |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |
| <b>5.3 1200 Proficiency and Due Professional Care</b>   |                     |                |
| This section seeks to confirm that engagements are performed with proficiency and due professional care, having regard to the skills and qualifications of the CAE and their staff, and how they exercise their capability in practice.   |                     |                |
| <b>1210 Proficiency</b>   |                     |                |
| Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent?<br>Is the CAE suitably experienced?   |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |
| Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes?<br>Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?   |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |
| Having regard to the answers to the other questions in this section and other matters, does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?<br>Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance? |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| Do internal auditors have sufficient knowledge of key information technology risks and controls?   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>1220 Due Professional Care</b>  |         |                |                     |
| Do internal auditors exercise due professional care by considering the:  |         |                |                     |
| <ul style="list-style-type: none"> <li>■ Extent of work needed to achieve the engagement's objectives?</li> <li>■ Relative complexity, materiality or significance of matters to which assurance procedures are applied?</li> <li>■ Adequacy and effectiveness of governance, risk management and control processes?</li> <li>■ Probability of significant errors, fraud, or non-compliance?</li> <li>■ Cost of assurance in relation to potential benefits?</li> </ul> <p>In doing the above, internal auditors must also consider how technology-based audit and other data analysis techniques can provide assurance.</p> |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| Do internal auditors exercise due professional care during a consulting engagement by considering the:   |         |                |                     |
| <ul style="list-style-type: none"> <li>■ Needs and expectations of clients, including the nature, timing and communication of engagement results?</li> <li>■ Relative complexity and extent of work needed to achieve the engagement's objectives?</li> <li>■ Cost of the consulting engagement in relation to potential benefits?</li> </ul>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>1230 Continuing Professional Development</b>  |         |                |                     |
| Has the CAE defined the skills and competencies for each level of auditor?   |         |                |                     |
| and  |         |                |                     |
| Does the CAE periodically assess individual auditors against the predetermined skills and competencies?  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| Do internal auditors undertake a programme of continuing professional development?<br>and<br>Do internal auditors maintain a record of their professional development and training activities?   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>5.4 1300 Quality Assurance and Improvement Programme</b>  |         |                |                     |
| The questions in this section seek to confirm that the CAE has developed and maintained a Quality Assurance and Improvement Programme (QAIP) through which conformance with the PSIAS can be and is properly assessed.   |         |                |                     |
| Has the CAE developed a QAIP that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?<br>Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?<br>Does the CAE maintain the QAIP?<br>Are any statutory requirements for review of the internal audit activity satisfied? |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>1310 Requirements of the Quality Assurance and Improvement Programme</b>  |         |                |                     |
| Does the QAIP include both internal and external assessments?  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>1311 Internal Assessments</b>   |         |                |                     |
| Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| Do internal assessments include ongoing monitoring of the internal audit activity, such as: <ul style="list-style-type: none"> <li>■ Routine quality monitoring processes?</li> <li>■ Periodic assessments for evaluating conformance with the PSIAS?</li> </ul>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| <p>Does ongoing performance monitoring contribute to quality improvement through the effective use of performance targets?</p> <ul style="list-style-type: none"> <li>■ Is there a set of comprehensive targets which between them encompass all significant internal audit activities?</li> <li>■ Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?</li> <li>■ Does the CAE measure, monitor and report on progress against these targets?</li> <li>■ Does ongoing performance monitoring include obtaining stakeholder feedback?</li> </ul> |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices?</p> <p>Sufficiency would require knowledge of the PSIAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories, etc.</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p><b>1312 External Assessments</b></p>   |         |                |                     |
| <p>Has an external assessment been carried out, or is one planned to be carried out, at least once every five years?</p> <p>Has the CAE discussed the alternative approaches to external assessment with the board? This should reflect the relative costs of the different approaches, the potential advantages of an external viewpoint, and whether there are factors which might be considered to warrant a demonstrably independent assessment.</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| <p>Has the CAE properly discussed the qualifications and independence of the assessor or assessment team with the board?</p> <p>In doing this, the CAE should consider whether the assessor or assessment team has demonstrated its competence in both the professional practice of internal auditing <i>and</i> the external assessment process. Competence can be demonstrated through both experience and theoretical learning. Experience of similar organisations or sectors is more valuable than less relevant experience. In the case of an assessment team, not all members need to have all the competencies – it is the team as a whole that is qualified.</p> <p>If the capability of the assessor or assessment team is not immediately obvious, the CAE should document how they used professional judgement to decide whether this is sufficient to carry out the external assessment.</p> <p>If the assessor or assessment team has any real or apparent conflicts of interest with the organisation, this should be clearly explained to the board, and safeguards should be put in place to minimise the effect of this on the conduct of the external assessment.</p> <p>Conflict of interest may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.</p> |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?</p> <p>The CAE should also agree this scope with the external assessor or assessment team.</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p><b>1320 Reporting on the Quality Assurance and Improvement Programme</b></p>   |         |                |                     |
| <p>Has the CAE reported the results of the QAIP to senior management and the board?</p> <p>Note that:</p> <ul style="list-style-type: none"> <li>■ the results of both external and periodic internal assessment must be communicated upon completion</li> <li>■ the results of ongoing monitoring must be communicated at least annually</li> <li>■ the results must include the assessor’s or assessment team’s evaluation with regards to the degree of the internal audit activity’s conformance with the PSIAS.</li> </ul>   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?                                       |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <b>1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'</b>                                   |         |                |                     |
| Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?                           |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <b>1322 Disclosure of Non-conformance</b>   |         |                |                     |
| Has the CAE reported any instances of non-conformance with the PSIAS to the board?  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| If appropriate, has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced? |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| <b>6 Performance Standards</b>  |         |                |                     |
| <b>6.1 2000 Managing the Internal Audit Activity</b>  |         |                |                     |
| <p>The questions in this section seek to confirm that the internal audit activity's work achieves the purposes and responsibility of the activity, as set out in the internal audit charter, and that the internal audit activity adds value to the organisation and its stakeholders by:</p> <ul style="list-style-type: none"> <li>■ providing objective and relevant assurance</li> <li>■ contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.</li> </ul>   |         |                |                     |
| <b>2010 Planning</b>  |         |                |                     |
| <p>Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?</p> <p>Does the risk-based plan take into account the requirement to produce an annual internal audit opinion?</p> <p>Does the risk-based plan incorporate or is it linked to a strategic or high-level statement of:</p> <ul style="list-style-type: none"> <li>■ How the internal audit service will be delivered?</li> <li>■ How the internal audit service will be developed in accordance with the internal audit charter?</li> <li>■ How the internal audit service links to organisational objectives and priorities?</li> </ul> |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| <p>Does the risk-based plan set out how internal audit’s work will identify and address local and national issues and risks?</p> <p>In developing the risk-based plan, has the CAE taken into account the organisation’s risk management framework and relative risk maturity of the organisation?</p> <p>If such a risk management framework does not exist, has the CAE used their judgement of risks after input from senior management and the board and evidenced this?</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Does the risk-based plan set out the:</p> <ul style="list-style-type: none"> <li>■ Audit work to be carried out?</li> <li>■ Respective priorities of those pieces of audit work?</li> <li>■ Estimated resources needed for the work?</li> </ul> <p>Does the risk-based plan differentiate between audit and other types of work?</p> <p>Is the risk-based plan sufficiently flexible to reflect the changing risks and priorities of the organisation?</p>   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation’s business, risks, operations, programmes, systems and controls?</p>   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Is the internal audit activity’s plan of engagements based on a documented risk assessment?</p> <p>Is the risk assessment used to develop the plan of engagements undertaken at least annually?</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>In developing the risk-based plan, has the CAE also given sufficient consideration to:</p> <ul style="list-style-type: none"> <li>■ Any declarations of interest (for the avoidance for conflicts of interest)?</li> <li>■ The requirement to use specialists, eg IT or contract and procurement auditors?</li> <li>■ Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary?</li> <li>■ 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?</li> </ul> |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| <p>In developing the risk-based plan, has the CAE consulted with senior management and the board to obtain an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes?</p> <p>Does the CAE identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinion and any other conclusions?</p> |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?</p> <p>Are consulting engagements that have been accepted included in the risk-based plan?</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>2020 Communication and Approval</b>   |         |                |                     |
| <p>Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval?</p> <p>Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>Has the CAE communicated the impact of any resource limitations to senior management and the board?</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>2030 Resource Management</b>  |         |                |                     |
| <p>Does the risk-based plan explain how internal audit's resource requirements have been assessed?</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise disruption to the functions being audited, subject to the requirement to obtain sufficient assurance?</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| <p>If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board?</p> <p>This may include an imbalance between the work plan and resource availability and/or other significant matters that jeopardise the delivery of the plan or require it to be changed.</p>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>2040 Policies and Procedures</b>  |         |                |                     |
| <p>Has the CAE developed and put into place policies and procedures to guide the internal audit activity?</p> <p>Examples include maintaining an audit manual and/or using electronic management systems to guide staff in performing their duties in a manner that conforms to the PSIAS</p> <p>Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>2050 Coordination</b>   |         |                |                     |
| <p>Does the risk-based plan include an adequately developed approach to using other sources of assurance and any work that may be required to place reliance upon those sources?</p> <p>The CAE should generally share information and coordinate activities with other internal and external providers of assurance and consulting services. They may also carry out an assurance mapping exercise, or make use of assurance mapping carried out by other assurance providers.</p> <p>They should also meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans.</p> <p>Where key organisational risks relate to work undertaken through partnerships, the auditor may be able to take assurance from work undertaken by others, or by obtaining assurance directly.</p> |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| <b>2060 Reporting to Senior Management and the Board</b>   |         |                |                     |
| <p>Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?</p> <p>Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?</p> <p>Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?</p>            |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>2070 External Service Provider and Organisational Responsibility for Internal Auditing</b>  |         |                |                     |
| <p>Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?</p>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>6.2 2100 Nature of Work</b>   |         |                |                     |
| <p>The questions in this section seek to confirm that the internal audit activity evaluates and contributes to the improvement of the organisation's governance, risk management and internal control processes using a systematic and disciplined approach.</p>   |         |                |                     |
| <b>2110 Governance</b>   |         |                |                     |
| <p>Does the internal audit activity assess and make appropriate recommendations to improve the organisation's governance processes for:</p> <ul style="list-style-type: none"> <li>■ Making strategic and operational decisions?</li> <li>■ Overseeing risk management and control?</li> <li>■ Promoting appropriate ethics and values within the organisation?</li> <li>■ Ensuring effective organisational performance management and accountability?</li> <li>■ Communicating risk and control information to appropriate areas of the organisation?</li> <li>■ Coordinating the activities of and communicating information among the board, external and internal auditors and management?</li> </ul> |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| <p>Has the internal audit activity evaluated the design, implementation and effectiveness of the organisation’s ethics-related objectives, programmes and activities? This is an area where the CAE may be able to use other sources of assurance.</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>Has the internal audit activity assessed whether the organisation’s information technology governance supports the organisation’s strategies and objectives? This is an area where the CAE may be able to use other sources of assurance.</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>2120 Risk Management</b>  |         |                |                     |
| <p>Has the internal audit activity evaluated the effectiveness of the organisation’s risk management processes by determining that:</p> <ul style="list-style-type: none"> <li>■ Organisational objectives support and align with the organisation’s mission?</li> <li>■ Significant risks are identified and assessed?</li> <li>■ Appropriate risk responses are selected that align risks with the organisation’s risk appetite?</li> <li>■ Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities?</li> </ul> |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>Has the internal audit activity evaluated the risks relating to the organisation’s governance, operations and information systems regarding the:</p> <ul style="list-style-type: none"> <li>■ Achievement of the organisation’s strategic objectives?</li> <li>■ Reliability and integrity of financial and operational information?</li> <li>■ Effectiveness and efficiency of operations and programmes?</li> <li>■ Safeguarding of assets?</li> <li>■ Compliance with laws, regulations, policies, procedures and contracts?</li> </ul>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?</p> <p>CIPFA has issued a <i>Code of Practice on Managing the Risk of Fraud and Corruption</i>, and strongly recommends that it is used as the basis for assessment of how an authority manages its fraud risk.</p>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| <p>Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?</p> <p>Are internal auditors alert to other significant risks when undertaking consulting engagements?</p> <p>Do internal auditors incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes?</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <b>2130 Control</b>   |         |                |                     |
| <p>Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems regarding the:</p> <ul style="list-style-type: none"> <li>■ Achievement of the organisation's strategic objectives?</li> <li>■ Reliability and integrity of financial and operational information?</li> <li>■ Effectiveness and efficiency of operations and programmes?</li> <li>■ Safeguarding of assets?</li> <li>■ Compliance with laws, regulations, policies, procedures and contracts?</li> </ul> |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <b>6.3 2200 Engagement Planning</b>   |         |                |                     |
| <p>Do internal auditors develop and document a plan for each engagement?</p> <p>Does the engagement plan include the engagements:</p> <ul style="list-style-type: none"> <li>■ Objectives?</li> <li>■ Scope?</li> <li>■ Timing?</li> <li>■ Resource allocations?</li> </ul>   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| <p>Do internal auditors consider the following in planning an engagement, and is this documented:</p> <ul style="list-style-type: none"> <li>■ The objectives of the activity being reviewed?</li> <li>■ The means by which the activity controls its performance?</li> <li>■ The significant risks to the activity being audited?</li> <li>■ The activity’s resources?</li> <li>■ The activity’s operations?</li> <li>■ The means by which the potential impact of risk is kept to an acceptable level?</li> <li>■ The adequacy and effectiveness of the activity’s governance, risk management and control processes compared to a relevant framework or model?</li> <li>■ The opportunities for making significant improvements to the activity’s governance, risk management and control processes?</li> </ul> |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following:</p> <ul style="list-style-type: none"> <li>■ Objectives?</li> <li>■ Scope?</li> <li>■ The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)?</li> </ul>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>For consulting engagements, have internal auditors established an understanding with the engagement clients about the following:</p> <ul style="list-style-type: none"> <li>■ Objectives?</li> <li>■ Scope?</li> <li>■ The respective responsibilities of the internal auditors and the client and other client expectations?</li> </ul> <p>For significant consulting engagements, has this understanding been documented?</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| <b>2210 Engagement Objectives</b>   |         |                |                     |
| <p>Have objectives been agreed for each engagement?</p> <p>Have internal auditors carried out a preliminary risk assessment of the activity under review?</p> <p>Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?</p> <p>Have internal auditors considered the probability of the following when developing the engagement objectives:</p> <ul style="list-style-type: none"> <li>■ Significant errors?</li> <li>■ Fraud?</li> <li>■ Non-compliance?</li> <li>■ Any other risks?</li> </ul> |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether organisational objectives and goals have been accomplished?</p> <p>If the criteria has been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls?</p>   |         |                |                     |
| <p>If the criteria has been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria?</p> <p>If the value for money criteria has been referred to, has the use of all the organisation's main types of resources been considered, including money, people and assets?</p>   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?</p> <p>Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives?</p>   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <b>2220 Engagement Scope</b>  |         |                |                     |
| <p>Is the scope that is established for each engagement generally sufficient to satisfy the engagement's objectives?</p> <p>Does the scope for each engagement include consideration of relevant systems, records, personnel and physical properties? Does this consideration include areas under the control of outside parties, where appropriate?</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| <p>Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?</p> <p>Where significant consulting opportunities have arisen during an assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting standards?</p>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>For each consulting engagement, was the scope of the engagement generally sufficient to address any agreed-upon objectives?</p> <p>If the internal auditors developed any reservations about the scope of a consulting engagement while undertaking that engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement?</p> <p>During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements?</p> <p>During consulting engagements, were internal auditors alert to any significant control issues?</p> |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>2230 Engagement Resource Allocation</b>   |         |                |                     |
| <p>Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of each engagement based on:</p> <p>a) The nature and complexity of the individual engagement?</p> <p>b) Any time constraints?</p> <p>c) The resources available?</p>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>2240 Engagement Work Programme</b>  |         |                |                     |
| <p>Have internal auditors developed and documented work programmes that achieve the engagement objectives?</p> <p>Do the engagement work programmes include procedures for:</p> <ul style="list-style-type: none"> <li>■ Identifying information?</li> <li>■ Analysing information?</li> <li>■ Evaluating information?</li> <li>■ Documenting information?</li> </ul> <p>Were work programmes approved prior to implementation for each engagement?</p> <p>Were any adjustments required to work programmes approved promptly?</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   | Evidence / comments |                |
|---|---------------------|----------------|
| <b>6.4 2300 Performing the Engagement</b>   |                     |                |
| The questions in this section seek to confirm that internal auditors analyse, evaluate and document sufficient, reliable, relevant and useful information to support engagement results and conclusions.  |                     |                |
| <b>2310 Identifying Information</b>   |                     |                |
| <p>Do internal auditors generally identify (sufficient, reliable, relevant and useful) information which supports engagement results and conclusions?</p> <p>Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.</p> |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |
| <b>2320 Analysis and Evaluation</b>   |                     |                |
| Have internal auditors generally based their conclusions and engagement results on appropriate analyses and evaluations?  |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |
| <p>Have internal auditors generally remained alert to the possibility of the following when performing their individual audits, and has this been documented:</p> <ul style="list-style-type: none"> <li>■ Intentional wrongdoing?</li> <li>■ Errors and omissions?</li> <li>■ Poor value for money?</li> <li>■ Failure to comply with management policy?</li> <li>■ Conflicts of interest?</li> </ul>  |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |
| <b>2330 Documenting Information</b>   |                     |                |
| <p>Have internal auditors documented the relevant information required to support engagement conclusions and results?</p> <p>Are working papers sufficiently complete and detailed to enable another 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?</p>  |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| <p>Does the CAE control access to engagement records?</p> <p>Has the CAE obtained the approval of senior management and/or legal counsel as appropriate before releasing such records to external parties?</p> <p>Has the CAE developed and implemented retention requirements for all types of engagement records?</p>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>Are the retention requirements for engagement records consistent with the organisation’s own guidelines as well as any relevant regulatory or other requirements?</p>   |         |                |                     |
| <b>2340 Engagement Supervision</b>   |         |                |                     |
| <p>Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?</p> <p>Is appropriate evidence of supervision documented and retained for each engagement?</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>6.5 2400 Communicating Results</b>  |         |                |                     |
| <p>The questions in this section seek to confirm that internal auditors communicate the results of engagements in an appropriate way.</p>  |         |                |                     |
| <b>2410 Criteria for Communicating</b>   |         |                |                     |
| <p>Do the communications of engagement results include the following:</p> <ul style="list-style-type: none"> <li>■ The engagement’s objectives?</li> <li>■ The scope of the engagement?</li> <li>■ Applicable conclusions?</li> <li>■ Recommendations and action plans, if appropriate?</li> </ul>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>Do internal auditors generally discuss the contents of the draft final reports with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?</p>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>If recommendations and an action plan have been included, are recommendations prioritised according to risk?</p> <p>If recommendations and an action plan have been included, does the communication also state agreements already reached with management, together with appropriate timescales?</p> <p>If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?</p> |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider  |         |                | Evidence / comments |
|--|---------|----------------|---------------------|
| <p>Subject to confidentiality requirements and other limitations on reporting, do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice?</p> <p>When an opinion or conclusion is issued, are the expectations of senior management, the board and other stakeholders taken into account?</p> |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>Opinions should be supported by sufficient, reliable, relevant and useful information (in line with responses to questions for PSIAS 2300).</p> <p>Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?</p>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <p>Where the CAE has been required to provide assurance to other partnership organisations, or arm's length bodies such as trading companies, have the risks of doing so been managed effectively, having regard to the CAE's primary responsibility to the management of the organisation for which they are engaged to provide internal audit services?</p>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>2420 Quality of Communications</b>  |         |                |                     |
| <p>Are internal audit communications generally accurate, objective, clear, concise, constructive, complete and timely?</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>2421 Errors and Omissions</b>   |         |                |                     |
| <p>If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?</p>   |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |
| <b>2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'</b>  |         |                |                     |
| <p>Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement?</p>  |         |                |                     |
| CONFORMS   | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| <b>2431 Engagement Disclosure of Non-conformance</b>  |         |                |                     |
| <p>Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:</p> <ul style="list-style-type: none"> <li>■ The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved?</li> <li>■ The reason(s) for non-conformance?</li> <li>■ The impact of non-conformance on the engagement and the engagement results?</li> </ul> |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <b>2440 Disseminating Results</b>   |         |                |                     |
| <p>Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?</p>   |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Has the CAE communicated engagement results to all appropriate parties?</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Before releasing engagement results to parties outside the organisation, did the CAE:</p> <ul style="list-style-type: none"> <li>■ Assess the potential risk to the organisation?</li> <li>■ Consult with senior management and/or legal counsel as appropriate?</li> <li>■ Control dissemination by restricting the use of the results?</li> </ul>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   |         |                | Evidence / comments |
|---|---------|----------------|---------------------|
| <b>2450 Overall Opinion</b>   |         |                |                     |
| <p>Has the CAE delivered an annual internal audit opinion?</p> <p>Does the annual internal audit opinion conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control?</p> <p>Does the annual internal audit opinion take into account the expectations of senior management, the board and other stakeholders?</p> <p>Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information (having regard to the answers to questions on PSIAS 2300)?</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Does the communication identify the following:</p> <ul style="list-style-type: none"> <li>■ The scope of the opinion, including the time period to which the opinion relates?</li> <li>■ Any scope limitations?</li> <li>■ The consideration of all related projects including the reliance on other assurance providers?</li> <li>■ The risk or control framework or other criteria used as a basis for the overall opinion?</li> </ul> <p>Where a qualified or unfavourable annual internal audit opinion is given, are the reasons for that opinion stated?</p> <p>Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement?</p>  |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |
| <p>Does the annual report incorporate the following:</p> <ul style="list-style-type: none"> <li>■ The annual internal audit opinion?</li> <li>■ A summary of the work that supports the opinion?</li> <li>■ A disclosure of any qualifications to the opinion?</li> <li>■ The reasons for any qualifications to the opinion?</li> <li>■ A disclosure of any impairments or restriction in scope?</li> <li>■ A comparison or work actually carried out with the work planned?</li> <li>■ A statement on conformance with the PSIAS?</li> <li>■ The results of the QAIP?</li> <li>■ Progress against any improvement plans resulting from the QAIP?</li> <li>■ A summary of the performance of the internal audit activity against its performance measures and targets?</li> <li>■ Any other issues that the CAE judges is relevant to the preparation of the governance statement?</li> </ul> |         |                |                     |
| CONFORMS  | PARTIAL | NOT CONFORMING |                     |

| Questions to consider   | Evidence / comments |                |
|---|---------------------|----------------|
| <b>6.6 2500 Monitoring Progress</b>   |                     |                |
| <p>The questions in this section seek to confirm that a system is in place to monitor effectiveness of audit communications results to management, including appropriate follow up when no action is taken by management.</p> <p>Has the CAE established a process to monitor and follow up management actions to ensure that agreed actions have been effectively implemented or that senior management have accepted the risk of not taking action?</p> |                     |                |
| <p>Where issues have arisen during the follow-up process (for example, where agreed actions have not been implemented), has the CAE considered revising the internal audit opinion?</p> <p>Do the results of monitoring management actions inform the risk-based planning of future audit work?</p>   |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |
| Does the internal audit activity monitor the results of consulting engagements as agreed with the client?   |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |
| <b>6.7 2600 Communicating the Acceptance of Risks</b>   |                     |                |
| <p>This section considers the arrangements which apply if the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation.</p> <p>Situations of this kind are expected to be rare. PSIAS 2600 sets out communication requirements for the CAE. It is not the responsibility of the CAE to resolve the risk.</p>   |                     |                |
| <p>If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?</p> <p>If, after discussion with senior management, the CAE continues to conclude that the level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board?</p>  |                     |                |
| CONFORMS  | PARTIAL             | NOT CONFORMING |





**Registered office:**

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

[www.cipfa.org](http://www.cipfa.org)

CIPFA registered with the Charity Commissioners of England and Wales No 231060

