

Building an Effective Internal Audit Function in the Public Sector

2nd Edition

Global Practice Guide

Aligns with the Global Internal Audit Standards



The Institute of
Internal Auditors

PUBLIC SECTOR

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About the IPPF

A framework provides a structural blueprint and coherent system that facilitates the consistent development, interpretation, and application of a body of knowledge useful to a discipline or profession. The International Professional Practices Framework® (IPPF)® organizes the authoritative body of knowledge promulgated by The Institute of Internal Auditors for the professional practice of internal auditing. The IPPF includes Global Internal Audit Standards™, Topical Requirements, and Global Guidance.



**International
Professional Practices
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The IPPF addresses current internal audit practices while enabling practitioners and stakeholders globally to be flexible and responsive to the ongoing needs for high-quality internal auditing in diverse environments and organizations of different purposes, sizes, and structures.

Global Guidance

Global Guidance supports the Standards by providing nonmandatory information, advice, and best practices for performing internal audit services. It is endorsed by The IIA through formal review and approval processes.

Global Guidance provides detailed approaches, step-by-step processes, and examples on subjects including:

- Assurance and advisory services.
- Engagement planning, performance, and communication.
- Financial services.
- Fraud and other pervasive risks.
- Strategy and management of the internal audit function.
- Public sector.
- Sustainability.
- Global Technology Audit Guides® (GTAG®) provide auditors with the knowledge to perform assurance or consulting services related to an organization's information technology and information security risks and controls.

[Global guidance](#) is available as a benefit of membership in The IIA.

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Executive Summary

Internal and external stakeholders, especially the public an organization serves, rely on the assurances provided by the internal audit function that efficient, effective, economical, and equitable use is being made of public funds and that the organization is operating in the public interest.

Public sector chief audit executives are responsible for leading internal audit functions. They must respond to increasing challenges and demands for transparency, accountability, and effectiveness at all levels of government and public sector enterprises. Accomplishing this task may involve establishing a new internal audit function or improving or rejuvenating an existing one. Adding to the demands, the chief audit executive may also be new to the position. As part of their response, the chief audit executive needs to understand the unique aspects of the public sector environment, including political threats to the internal audit function's independence.

The Global Internal Audit Standards define “public sector” as “governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver programs, goods, or services to the public.”

This guide addresses key points and steps for a public sector chief audit executive to analyze and implement when preparing the internal audit function to strengthen the organization's ability to create, protect, and sustain value by providing the board (governing body) and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

In addressing these key points, The IIA's Global Internal Audit Standards are valuable. They provide a structure for establishing an internal audit function and performing internal audit services, while working with the regulations or standards required by the jurisdiction in which the organization operates. This guide lists and discusses applicable IIA Standards and includes leading practices to implement them.

In addition to the Global Internal Audit Standards, two other useful documents are “The IIA's Three Lines Model: An Update to the Three Lines of Defense” and “Applying the Three Lines Model in the Public Sector.” These publications can assist chief audit executives and other internal audit managers to engage organizational management and other stakeholders in discussing the role and importance of the internal audit function, especially in providing assurance on governance and risk management. This engagement and education process can help the internal audit function demonstrate its value.

Deciding on an effective delivery model, determining the level of competency needed, and evaluating the necessary skills discussed in this guide are all essential to building and improving the internal audit function.



Introduction

While the Global Internal Audit Standards apply to all **internal audit functions**, internal auditors in the **public sector** work in a political environment under **governance**, organizational, and funding structures that differ from those of the private sector. The nature of these structures and related conditions **may** be affected by the jurisdiction and level of government in which the internal audit function operates.

Note

Terms in **bold** are defined in the glossary in Appendix B.

The public sector is founded upon and governed under a legal framework that includes laws, regulations, administrative orders and rules, and other types of governing requirements specific to the jurisdiction. The **chief audit executive must** be aware of the laws and regulations that affect the internal audit function's ability to fully conform with all the provisions in the Global Internal Audit Standards. Internal auditors in the public sector have a broad base of **stakeholders**, including the public within the jurisdiction and appointed and elected officials.

Internal audit functions in the public sector are governed under a variety of structures. Some public sector organizations may be subject to multiple levels of governance, both within and outside the organization, which may compromise the chief audit executive's reporting relationships and the function's oversight and funding. The funding processes for internal audit functions vary widely in the public sector.

The purpose of this practice guide is to support auditors in the public sector to establish a new, improve an existing, rejuvenate a noncomplying, or refresh an underperforming internal audit function by:

- Deciding on and implementing an appropriate delivery model.
- Ensuring the internal audit function is functioning effectively.
- Creating a process to assess the competencies of the internal audit team.
- Demonstrating the relevance and results-oriented value of the internal audit function to the organization.

This task may fall to a newly appointed chief audit executive or an existing chief audit executive seeking to adapt to a changing environment. Alternatively, it may be performed as part of ongoing improvement to the leadership and management of an internal audit function. The chief audit executive is responsible for ensuring the internal audit function improves governance, **risk management**, and **control processes**, strengthening the organization's ability to create, protect, and sustain value for its public sector organization. This guidance can be adapted as it is applied in practice by public sector internal audit functions that vary in size, resource availability, the



complexity of the organizations in which they reside, regulatory requirements, maturity, and other factors.

These aspects of guidance will be set within the public sector context, emphasizing that the government serves the **public interest** through good governance practices in a political environment which requires ethics, **integrity, accountability**, transparency and equity as well as legal, regulatory and fiscal **compliance** to ensure the safeguarding of public funds and resources and efficient, effective and sustainable public service delivery (see Figure 1). The guidance also is presented in alignment with the Global Internal Audit Standards:

- Domain II – Ethics and Professionalism.
- Domain III – Governing the Internal Audit Function.
- Domain IV – Managing the Internal Audit Function.
- Domain V – Performing Internal Audit Services.

Public sector internal auditors will be able to use this guide to:

- Identify an effective operational delivery model to establish, manage, or improve an existing (or subpar) internal audit function in compliance with the IPPF, aligned with national and local legal requirements.
- Apply practical considerations when establishing or improving the processes of a public sector internal audit function, such as:
 - Creating a strategic plan, including identifying and analyzing the desired capability level of the internal audit function, available resources, and required timelines.
 - Developing relationships with the governing body¹ and **senior management**.
 - Describing strategies for hiring or appointing internal audit staff, including the chief audit executive.
 - Assessing competencies of audit staff and establishing minimum training requirements.
 - Creating, approving, monitoring, and amending an audit plan.
 - Performing and reporting on assurance and advisory services as well as the quality assurance and improvement program (QAIP).
 - Assessing feedback from stakeholders to improve the overall effectiveness of the internal audit function and to demonstrate the value provided by the function to the organization.

1. The Global Internal Audit Standards refer to the term “board” as the highest-level body charged with governance (see Glossary). The definition is broad to incorporate both private and public sector entities. However, this guide uses the term “governing body” to align with the terminology most commonly adopted in the public sector.



- Apply the concepts of the Three Lines Model and Applying the Three Lines Model in the Public Sector together with combined assurance to help ensure internal audit **independence**.
- Recognize and handle the political environment (the **risk** of undue influence or even potential interference) and its potential **impact** on **internal auditing** in its planning, performing, and communicating the results of assurance **engagements** in line with the IPPF.

This guidance replaces four previously issued publications. Prior content was included, rearranged, or deleted, and new content was added to update and broaden the scope of the previous documents and tie the subject areas together. The replaced publications include:

- Supplemental Guidance, Global Public Sector Insight:
 - “Value Proposition of Internal Auditing and the Internal Audit Capability Model,” March 2012.
 - “Implementing a New Internal Audit Function in the Public Sector,” April 2012.
 - “Optimizing Public Sector Audit Activities,” July 2012.
- Practice Guide: “Creating an Internal Audit Competency Process for the Public Sector,” February 2015.



The Public Sector Context

This guidance covers all seven Public Sector Context components, or unique aspects of auditing in the public sector environment, as illustrated in Figure 1, which comprise:

- **Public Good/Public Interest** – Although the internal audit function typically does not report directly to the public, all public sector internal audit work **should** be undertaken on the public's behalf and with the public benefit and interest in mind. The public sector internal audit function should assess what the organization is doing to provide value to the public.
- **Governance** – Internal auditing is integral to effective governance and helps organizations achieve their objectives and measure their results. If the organization does not have strong and mature governance processes, it may not be adequately prepared for an effective internal audit function. Internal auditing must reflect on and align with the organization's governance.
- **Political Environment** – To evaluate culture risk and align with The IIA's Standards of ethics and professionalism in Domain II, the public sector internal audit function should develop an understanding of political interests as they relate to its role in the organization. Auditors should be aware of the political environment but must remain objective in their work and not undertake work solely to meet the goals and interests of politicians.

Additional consideration may be needed when establishing the internal audit governance structure and specific processes, such as reporting if the organization reports to an elected official. Also, the results of internal audit engagements should be disseminated appropriately (in accordance with the **internal audit charter** and jurisdictional laws and/or regulations), even outside the organization, to improve governance, risk, and control processes but not for political purposes.

The impact of politics on the organization should be considered during the **risk assessment** process, including factors such as election cycles and the turnover of leadership, decision-makers, and key stakeholders.

- **Ethics: Integrity, Accountability, Transparency, and Equity** – In addition to the importance of conformance with the Standards within Domain II of the Global Internal Audit Standards, public sector internal auditors must display the highest level of ethics and integrity in their work with the organization to establish and maintain credibility with internal audit stakeholders, both inside and outside the organization. Due to the nature of the work the public sector provides to serve the public interest, **accountability** is vital for all levels of the government's governance structure. The internal audit function



serves the role of accountability through robust **assurance services**, reporting to the governing body and senior management of their organizations.

Most organizations in the public sector are subject to laws requiring transparency of records and information to the public. The internal audit function must incorporate these requirements into its processes to ensure assurance and advisory engagement records are accurately documented, communicated, and stored in a manner that allows accessibility as well as safeguarding of information that could jeopardize the security or privacy of protected information.

In addition to the importance of serving the public interest through efficient, effective, and sustainable public service delivery, such services must also be provided to the public equitably. Public sector internal auditors can help serve the public interest by including equity factors in the objectives of assurance engagements.

- ***Legal, Regulatory, and Fiscal Compliance*** – The internal audit function must become familiar with the laws, rules, and regulations that govern the organization and consider legal aspects while conducting all assurance and advisory engagements. Additionally, the chief audit executive must ensure they have established an appropriate governance structure for the internal audit function, including reporting for accountability, to ensure it is in compliance with any laws, rules, and regulations affecting internal audit operations within the organization and that it has identified and communicated any conflicts with audit standards, per Standard 4.1 Conformance with the Global Internal Audit Standards.
- ***Safeguarding of Public Funds and Resources*** – Because a public sector organization’s operating funds are generated from public resources, it has an obligation to the public to ensure those funds are managed appropriately. A public sector organization should have processes to ensure various stakeholders have opportunities for input into appropriate public resource management.

Accountability for safeguarding and appropriately using public funds lies with the governing body, the head of the organization, and the finance section. External auditors are responsible for performing financial audits because the internal audit function cannot provide an opinion for external parties on the financial statements of its organization. However, internal auditors should consider the effective use of public funds as part of the audit plan and controls in all organizational processes to protect the reliability and integrity of financial information (Standard 9.1).

- ***Efficient, Effective, and Sustainable Public Service Delivery*** – The public is the ultimate customer of all public sector services. Therefore, public sector internal auditors should consider this important element in planning all assurance and advisory engagements to ensure the results of such work **add value** to the organization and, ultimately, the public. This applies to engagements focused on government performance, achievement of outcomes, and sustainability to ensure government programs meet their intended purpose and can continue serving the public in the future.



For more information on auditing characteristics in the public sector environment that may differ from those in the private sector, see The IIA’s guidance titled, “Unique Aspects of Auditing in the Public Sector.”

Figure 1: The IIA’s Public Sector Context

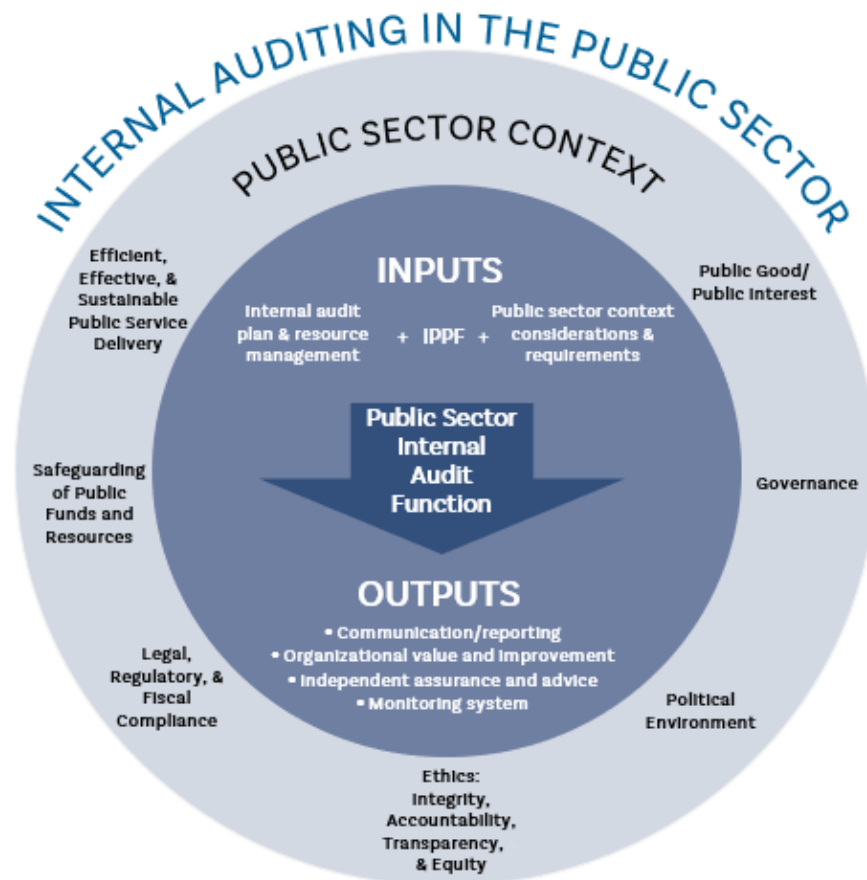


Figure 1 illustrates a fundamental goal of public sector organizations: to balance serving the public and addressing stakeholders’ interests within a political context. Public sector internal auditors should understand how these factors affect the organization and the internal audit function. The following sections will cover these aspects of auditing in the public sector and how they should be considered while establishing or improving an internal audit function.

Levels of Government

The public sector consists of governments (which includes the central and sub-governments depicted in Figure 2) and all publicly owned, controlled, or funded agencies, enterprises, and other entities that deliver programs, goods, or services to the public.

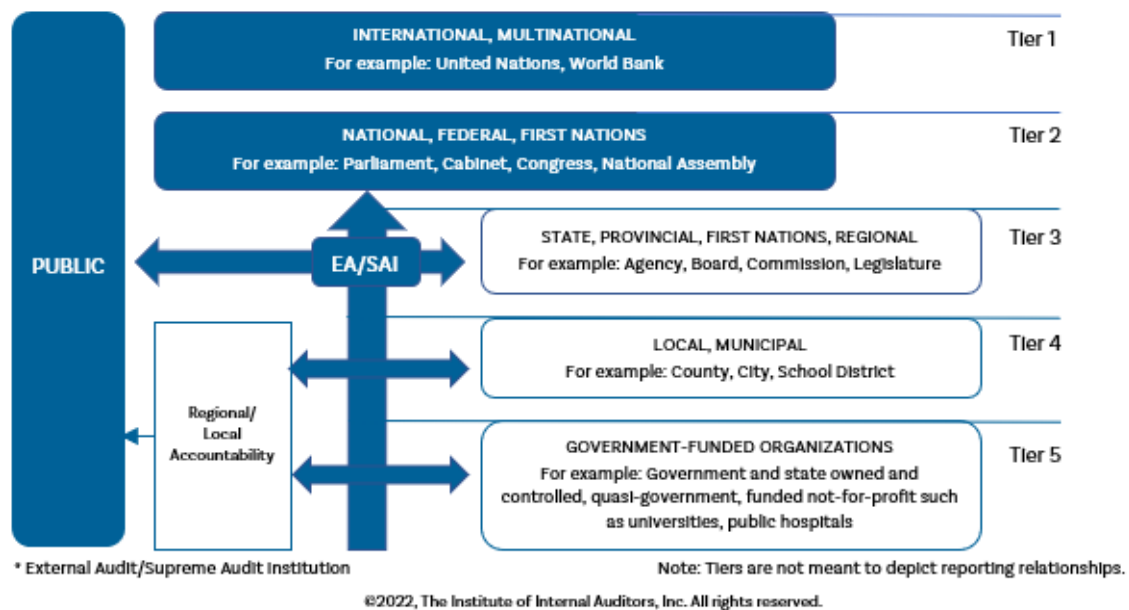
One nuance in the public sector is how the head of the organization (for example, the director or minister) is appointed. In some organizations, regardless of the level of government, the position may be elected by citizens.



In other organizations, across all tiers of government, that position may be appointed by a central government leader (such as a president, minister, or governor), a legislative body, or the organization's governing body (such as a **board** or commission.) The elected status of the leader may impact the internal audit function's processes, such as communications with the governing body and reporting on audit engagements. These topics are discussed later in this guidance, but internal auditors should be mindful of the potential variances in governance structure for their public sector organization.

Each public sector jurisdiction may be structured differently and operate under different laws, rules, and regulations. Generally, most public sector entities will fit under one of the levels of government, as identified in Figure 2.

Figure 2: The Tiers of Government



Due to the government's authority over its citizens, all tiers should operate with an appropriate level of accountability, transparency, and integrity in providing services. The internal audit function can help by providing assurance and advisory services that include these objectives. The approach to internal auditing at each level will be generally the same; however, the scale of work conducted may be different due to the levels of resources available. Governing structures, public financial management, and accountability requirements also may vary depending on the level of government in which the organization resides.



Developing the Internal Audit Function

Ethics and Professionalism

Political pressures identified in the Public Sector Context illustrated in Figure 1 can threaten the independence of the function and the **objectivity** of internal auditors. Steps must be taken to mitigate these threats. (See also the “Establishing Reporting Relationships” and “The Internal Audit Charter” sections.)

Additionally, internal auditors in the public sector must adhere to the principles and standards of Domain II Ethics and Professionalism and any code of ethics that applies within their jurisdiction and/or organization. As a component of accountability, integrity is essential within the public sector, as all actions are seen and scrutinized by the public during and outside working hours. Ensuring the utmost ethical conduct and actions of integrity helps provide the credibility needed by the internal auditor to effectively communicate recommendations for improvement to management and public sector governing bodies.

Establishing Governance for the Internal Audit Function

Standards and Requirements

IIA Standards – Professional audit standards, such as those in the Global Internal Audit Standards, are important because they establish credibility with stakeholders for the results and conclusions of the internal audit function’s work. Additionally, they serve as the first layer of the quality assurance process and provide a structure for establishing the function and performing the work.

Several appropriate sets of standards may be available for a public sector organization’s internal audit function to follow. Some jurisdictions may require the internal audit function to follow a specific set of recognized audit standards by law or regulation. For example, in Estonia, the Auditors Activities Act of 2010 requires internal audit functions to adhere to The IIA’s IPPF; while in the United Kingdom, the Public Sector Internal Audit Standards (PSIAS) are mandatory for those practicing internal auditing in the public sector. In instances where a specific requirement does not exist, the public sector chief audit executive should adopt the Global Internal Audit Standards.

A new chief audit executive may contact a local IIA institute, chapter, or other audit network within their jurisdiction, get advice from a professional organization, or search publicly available sources for help identifying any standards beyond the Global Internal Audit Standards that may be required or legislated.



The IIA's IPPF comprises the Global Internal Audit Standards, Topical Requirements, and Global Guidance and was created specifically to be as generic as possible for the internal audit profession across all sectors. Specific nuances within the public sector context may need to be considered, as described in the section of the Standards titled "Applying the Global Internal Audit Standards in the Public Sector" and throughout this and other public sector Global Practice Guides. In the UK, a document has been developed to assist public sector internal auditors in applying the IPPF within their public sector environment.

Even if public sector internal auditors have other mandatory auditing standards to follow, they should consider where the Global Internal Audit Standards can also be followed to complement other standards. Standard 4.1 states, "If the Standards are used in conjunction with requirements issued by other authoritative bodies, internal audit communications **must** also cite the use of other requirements, as appropriate."

As explained in the Considerations for Implementation section of Standard 4.1, if any inconsistencies exist between the Global Internal Audit Standards and the other standards used, internal auditors **may** conform to alternative standards above those within the IPPF if the other requirements are more restrictive. After the internal audit function has been established and is operating, a quality assessment can help determine whether there are any gaps or inconsistencies in conformance with the Standards. (See the "Quality Assurance and Improvement Program" section.)

According to Standard 4.1 Requirements, "If laws or regulations prohibit internal auditors or the internal audit function from conforming with any part of the Standards, conformance with all other parts of the Standards is required, and appropriate disclosures must be made."

In addition to formal audit standards, professional associations such as The IIA may issue guidance to assist auditors in following standards, ensuring quality audit work, and increasing competencies, especially in specialized audit areas such as information technology (IT). (See the "Specialty Standards" section.)

Government Auditing Standards - Organizations such as the International Organization of Supreme Audit Institutions (INTOSAI) and the United States Government Accountability Office (GAO) have issued standards and guidance specific to auditing in the public sector environment (the International Standards of Supreme Audit Institutions and the Generally Accepted Government Auditing Standards, respectively).

However, these standards were developed for external auditors (such as those working in SAIs) and do not specifically address some of the nuances internal auditors should consider. INTOSAI's standards can be used as a reference, although not as a replacement for the IPPF; they may be too high-level for practical consideration by internal auditing, although useful in specific audits.

The general standards to be followed for the internal audit function's assurance and advisory services should be documented in the internal audit charter and approved by the governing body. (See "The Internal Audit Charter" section.)



Specialty Standards – In addition to following general audit standards, auditors may want to apply standards and frameworks specific to the type of audit work being conducted for some specific and more technical engagements such as IT or cybersecurity topics. ISACA issues the COBIT (Control Objectives for Information and Related Technology) framework for the governance and management of enterprise IT as well as an IT risk framework and an IT audit framework (in addition to other IT frameworks, standards, and models) that may be beneficial for guiding public sector internal auditors assessing risks specific to IT and performing IT audit engagements. Public sector internal auditors may also rely on the National Institute of Standards and Technology (NIST) for guidance in conducting IT audits.

Resource

The IIA provides guidance for conforming with the IIA standards discussing IT. See Global Technology Audit Guides (GTAGs) listed under Global Guidance on The IIA’s website.

Additionally, other frameworks may be used as a source of **criteria** and to help shape engagement objectives for certain audit topics. For example, the Committee of Sponsoring Organizations of the Treadway Commission’s (COSO’s) *Internal Control – Integrated Framework* could be applied to an engagement with specific internal control objectives.

The International Organization for Standardization (ISO) also has topical standards that may be relevant to public sector internal audit work, such as the 37000 series on governance of organizations. Another example is environmental auditing for which auditors may wish to reference the Global Reporting Initiative or the International Integrated Reporting Framework.

Specialty standards and frameworks should be selected based on audit topics and objectives and referenced in individual audit engagements. The chief audit executive should ensure staff conducting such engagements has adequate training and competencies to adhere to specialty standards. (See the “Staffing the Internal Audit Function” section.)

Public Sector Requirements – Those charged with establishing the internal audit function should first research and determine the legal basis for internal auditing within the government jurisdiction. The internal audit function may need to determine whether there are any discrepancies between the regulatory environment and the IPPF or other recognized auditing standards. (See the “IIA Standards” section.) Any discrepancies should be brought to the attention of the public sector organization’s governing body and addressed in the internal audit charter. The internal audit charter should include engagements required by legislation or regulation. The chief audit executive and governing body should also ensure the internal audit function adheres to any other relevant laws, rules, and regulations.

From a broad, international perspective, the authority for the internal audit function may be established through various legal instruments. Some countries formally reference the internal audit function in their constitutions at the federal (national) or state (regional or provincial) level (as applicable to the jurisdiction). In addition, some countries authorize public sector internal audit functions by specific legislation. Some jurisdictions have additional regulations, and local governments may have specific ordinances for internal auditing. In these situations, the chief audit executive is responsible for ensuring appropriate researching and fully understanding the



legal authority and determining what is required for the situation occurs. The internal audit charter must include any legal mandate for internal auditing, according to Standard 6.1 Internal Audit Mandate.

Delivery Models

There are three primary models for the delivery of internal audit services within an organization:

- ***Insourcing*** – Establishing and staffing an internal audit function within the organization. This allows the internal audit function to be part of the organization and learn more about significant business operations, including strategy, programs or functions, and culture. It also increases the internal audit function’s availability for advisory services as well as assurance engagements.

However, insourcing may have limitations in budget or availability of specialized resources that could restrict staffing size and available competencies.

- ***Outsourcing*** – Contracting with a firm qualified and competent to deliver internal audit services consistent with the IPPF and other relevant standards. It should not be the same firm (or auditors) that provide external audit services to the organization (and the same consideration should be given to cosourcing as described below.) As stated, in part, in Domain III Governing the Internal Audit Function of the Global Internal Audit Standards in a section titled “Application of this Domain”:

“Internal audit services may be provided by persons within or outside the organization for organizations that vary in purpose, size, complexity, and structure. The Standards apply whether an organization employs internal auditors directly, contracts them through an external service provider, or both. The chief audit executive’s responsibilities are performed by one or more individuals designated by the board. The chief audit executive, whether employed directly by the organization or through an external service

Governing Body

The definition of “board” in the Global Internal Audit Standards is “Highest-level body charged with governance, such as:

- A board of directors.
- An audit committee.
- A board of governors or trustees.
- A group of elected officials or political appointees.
- Another body that has authority over the relevant governance functions.

In an organization with more than one governing body, ‘board’ refers to the body/bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities.

If none of the above exist, ‘board’ should be read as referring to the group or person that acts as the organization’s highest-level governing body. Examples include the head of the organization and senior management.”

This definition accommodates the public sector context by recognizing that other roles or titles may be responsible for governance.



provider, is responsible for conformance with the Standards as demonstrated through the quality assurance and improvement program.”

An outsourced function should be accountable to a member of the organization’s senior management with adequate knowledge and **competency** in internal auditing and public sector operations.

Additionally, the other governance aspects of the internal audit function should still be established and maintained by senior management, including oversight of the internal audit function by a governing body that meets regularly and the establishment of a quality assurance and improvement program to assess the conformance of the function with the Global Internal Audit Standards.

- **Cosourcing** (or partnering) – Establishing an in-house internal audit function and supplementing it with qualified internal audit services when specialized or additional resource needs arise. For example, if a highly technical topic arises on the risk assessment for which required competencies are not held by current staff. In that case, the chief audit executive and the governing body may determine it is more cost-effective to contract for the specialized audit work or find the skills within the organization rather than train current staff. Additionally, cosourced staff could be procured to work alongside internal audit staff to assist, with the internal audit function maintaining control of the project while still obtaining a specialized skill set and knowledge to apply to the engagement.

Establishing and maintaining an internal audit function inside the organization may be preferable to fully outsourcing, according to leading practices; however, each organization needs to assess its unique situation individually. One potential problem is that it may not be easy for outside auditors to be sufficiently engaged and knowledgeable about the subtleties of an organization, including its operational culture. Rigid adherence to a plan, extra fees, low budgets, and protecting sensitive public data also can cause concerns.

The internal audit function’s primary responsibility is to its organization. Standard 7.1 Organizational Independence states, “The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually. This includes communicating incidents where independence may have been impaired, and the actions or safeguards employed to address the impairment.” An essential condition is that the board (governing body) establishes a direct reporting relationship with the chief audit executive and the internal audit function. In addition, senior management must position the function at a level within the organization that enables it to perform its services and responsibilities without interference.

A **conflict of interest** may occur if the internal audit function reports to a firm outside the organization. If an organization outsources or cosources for part of the internal audit work, the member of the organization management in charge of holding the outsourced activity accountable, the governing body, or the chief audit executive should maintain control of the projects and final communications should be issued on the internal audit function’s letterhead.



Organizations with small internal audit functions or those unable to establish such a function may benefit from outsourcing or cosourcing to obtain specific expertise, stay current with trends in audit practices, or handle a specific task that may require specialized competencies, such as cybersecurity or environmental auditing, especially within a limited timeframe. Organizations can also consider forming a consortium, creating a shared “outsourced” internal audit function to attract staff with the necessary skills and attain a critical mass of competencies. (See the “Functional Reporting Models” section.)

In either case, it is important that any outsourced or cosourced resources are assessed adequately to ensure the appropriate skill sets are obtained to meet the assurance engagement’s objectives. In addition, any contracts for outsourced or cosourced internal audit services must include adequate safeguards to ensure auditors follow required standards and applicable laws and regulations and maintain the confidentiality of the information they handle.

This guide does not intend to suggest or specify which delivery model is the best for any organization. The IIA encourages management and governing bodies to carefully assess the internal audit needs of the organization and decide on a delivery model that will adequately fulfill the purpose of the internal audit function for the specific public sector organization.

Reporting Models

Functional Reporting Models – Once the organization has decided which delivery model to use, if insourcing or cosourcing the internal audit function is the decision, the next decision is whether to create a centralized or decentralized internal audit function, as illustrated in Figure 3. In making this determination, the organization should consider the advantages and disadvantages of each option to decide which model is best suited for the organization’s current stage of maturity and the political environment. Additionally, this option of models may be under consideration when multiple public sector organizations within a tier of government (such as several state agencies or another tier, see Figure 2) decide to combine internal audit resources. One benefit to combining may be to capitalize on economies of scale. The two most common reporting models are:

- ***Centralization*** – Separate organizations, departments, or agencies are combined (for example, under a “portfolio” or consortium of relevant policy areas such as public safety or public health), with the audit functions servicing the separate organizations as one centralized unit. This may work best in a jurisdiction or organization with robust administrative processes, mature management, and sound controls in place among its separate units and one seeking standardization and consistency across its portfolio.

A risk that may arise could impact the ability for the internal audit function to develop a deep knowledge of the business, processes, and culture of each organization of this portfolio (similar to the risk of the outsourced model for providing internal audit services described in the Delivery Models section above).



Additionally, one agency may choose to centralize activities from multiple locations to one specific location. This may be more feasible for an organization following an accurate Three Lines Model with a leaner third-line function and geographically dispersed second-line functions. (See the “Applying the Three Lines Model” section.) Some benefits of centralization include the ability to build internal audit team cohesiveness as well as develop and apply consistent practices.

- **Decentralization** -

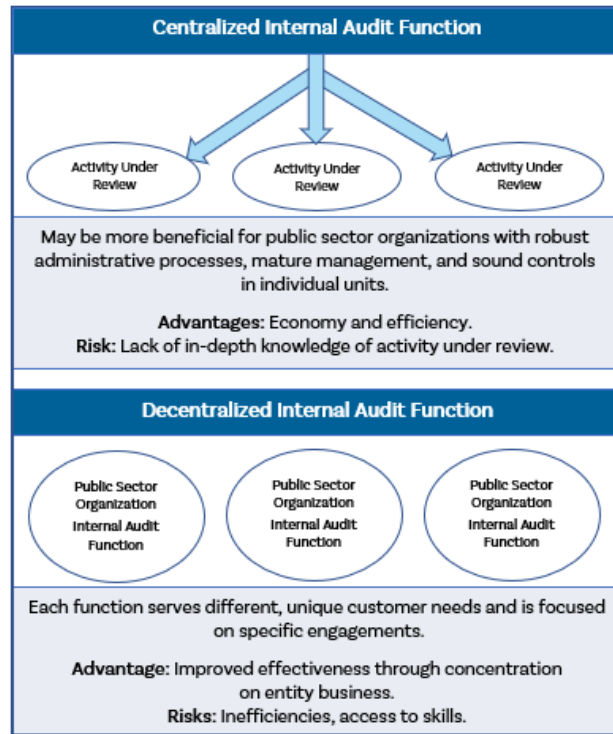
Organizations maintain separate audit functions per department, unit, geographic location, or organization to foster better accountability and knowledge of the organization being audited. This model may work well in an organization that services unique customer needs, is focused on specific assurance engagements, and is confident that decentralization optimizes its overall administration and management of audit resources.

Generally, economy and efficiency are vital benefits identified with centralization, and improved effectiveness due to being closer to the activity under review is the critical benefit identified for decentralization. Other factors to consider are geographical proximity and costs such as time and communication. Choices about the structure of an internal audit function can be impacted by factors such as:

- The political environment.
- Availability of skilled resources.
- The relative strength and maturity of governance, risk management, and internal control.
- Public satisfaction.

After implementation, an organization may later decide to change course. For example, a rapidly expanding organization may find that it cannot maintain an adequate level of service using a centralized model, or an expanding organization could centralize to gain control and impose a uniform culture across its different units, locations, or services. As with delivery models, this guide does not intend to prescribe an appropriate functional reporting model. Ultimately, each organization should consider its unique situation to decide the best structure.

Figure 3: Functional Reporting Models



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Stakeholder Identification

Identify Internal Audit Stakeholders

A new chief audit executive should begin by identifying internal and external stakeholders, including both direct to whom internal auditors may not directly report but who may have an interest in the outcomes of the internal audit function.

Incumbent chief audit executives may also want to **periodically** refresh this assessment of their stakeholders. For the public sector internal auditor, the stakeholder list reaches to the public served by the government organization. The internal audit function may explore ways to obtain public input into the risk assessment, assurance, and advisory processes (covered in detail in later sections of this guidance).

Soon after starting at the organization, and as a part of ongoing processes, the chief audit executive should schedule and hold interviews with key stakeholders, including, at a minimum, executive and senior managers, the governing body and/or audit committee chair, and appointing authorities (positions with established hiring authority such as the head of the organization or human resources; also see the left column of Figure 4 for additional ideas) to find out what they expect from the internal audit function.

This can help establish expectations for a function that adds value and helps to mitigate potential political pressures. Chief audit executives should maintain this practice periodically to ensure they are regularly receiving input and refreshing those expectations, similar to the “Assessing Feedback” process described later in this guide. (These interviews may also benefit the initial and ongoing annual risk assessment process; see the “Perform an Organizationwide Risk Assessment” section.)

These internal stakeholder connections are important – especially with top officials – in building relationships and trust, including stakeholders who are not actively being audited. These relationships open opportunities for management and governing body members to approach the chief audit executive for assistance such as advisory services, either formal or ad hoc, as well as just-in-time advice.

Additionally, the chief audit executive needs to establish open and honest communications with the head of the organization to assist in ultimately being comfortable and in an appropriate position to report bad news as well as areas that need improvement. These relationships may

Figure 4: Examples of Public Sector Internal Audit Stakeholders

Internal	External
Board or governing body	Governing body
Head of the organization	Elected officials, including legislative committee members
Audit committee	Regulatory bodies
Executive, senior management	Members of the Public
Human resources	Third-party service providers
Legal counsel*	External auditors (SAIs)
Activity under review	Other assurance providers
Internal service providers	Counterparts in similar organizations
Staff auditors	Professional associations such as The IIA
	Local professional leaders
	Media

* May be internal or external depending on organization’s size, structure, and other factors.



prove valuable in securing support for adequate resources, including needed expertise and knowledge base of staff, since a lack of resources could cause the internal audit function to focus on less important priorities or issue unsupported internal audit final communications, ultimately impacting credibility with stakeholders. (See the “Staffing the Internal Audit Function” section.)

Looking outside the organization, chief audit executives should identify external stakeholders such as those listed in the right-hand column of Figure 4, and other direct influencers of the organization. These may also include any taxpayer or user of services, which could run the gamut from individuals such as transit riders to users of parks and recreation facilities and special interest groups such as taxpayer alliances. As part of this process, the internal audit function can assess the completeness of the organization’s identification of key stakeholders.

However, in dealings with stakeholders, internal auditors should avoid situations where they may circumvent management by going directly to elected officials outside the organization; lines of accountability for the internal audit function reside with the organization’s governing body. The internal audit function can use relationships with external stakeholders to help build an awareness of how their organization is involved in broader government plans and objectives for risk assessment and monitoring performance purposes.

Additionally, the chief audit executive should educate the organization’s governing body members, senior management, appointing authorities, and possibly all staff within the organization on the role of the internal audit function. In addition to helping establish relationships, this education may serve as a communication tool to spread the value of internal audit services across the organization.

Establishing Reporting Relationships

Establishing Organizational Reporting Relationships – The Global Internal Audit Standards, Principle 7 Positioned Independently states, “the board (governing body) establishes and protects the internal audit function’s independence and qualifications.” Standard 7.1 requires that “The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually.” It goes on to state, “The chief audit executive must document in the internal audit charter the reporting relationships and organizational positioning of the internal audit function, as determined by the board” and further includes “ If the governing structure does not support organizational independence, the chief audit executive must document the characteristics of the governing structure limiting independence and any safeguards that may be employed to achieve this principle.”

The essential conditions written for the board and senior management also include specifications that the reporting relationship established allows for safeguarding the internal audit function’s independence and, therefore, the ability for the function to fulfill its mandate. These activities should be outlined as responsibilities of the governing body in the internal audit charter.

Given the comprehensiveness and complexity of internal audit activities, the internal audit function should have the requisite status (high enough to give it adequate credibility) within the



organization; otherwise, other departments or functions may not fully cooperate with or fully realize the value of the function.

It is a primary concern to provide adequate, necessary status to the internal audit function in the public sector. Therefore, the internal audit function should report directly to the appointing authority, the agency head, or the governing body through the audit committee. This encompasses functional and administrative reporting relationships as described in the Considerations for Implementation for Standard 7.1 and the following paragraphs.

Along with the appropriate level of organizational status, the internal audit function must have organizational independence. This means the internal audit function should not have any direct reporting relationships with the departments or functions it will be auditing.

As stated in Standard 2.2 Safeguarding Objectivity, “Internal auditors must refrain from assessing specific activities for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous 12 months.” Staff hired from other parts of the organization should not audit those functions for at least a year after joining the internal audit function to be in conformance with this standard.

For purposes of practicality, the chief audit executive also needs a reporting relationship within the organization for administrative purposes, such as requesting vacation leave. As stated previously, this reporting relationship should be to the highest level possible within the organization to help protect the internal audit function's independence.

The Charter and Governing Body

The Internal Audit Charter – A formal, documented, and approved charter is foundational to the public sector internal audit function. Standard 6.2 Internal Audit Charter states, “The chief audit executive must develop and maintain an internal audit charter that specifies, at a minimum, the internal audit function’s:

- Purpose of Internal Auditing.
- Commitment to adhering to the Global Internal Audit Standards.
- Mandate, including scope and types of services to be provided, and the board’s responsibilities and expectations regarding management’s support of the internal audit function. (See also Standard 6.1 Internal Audit Mandate.)
- Organizational position and reporting relationships. (See also Standard 7.1 Organizational Independence.)

The chief audit executive must discuss the proposed charter with the board and senior management to confirm that it accurately reflects their understanding and expectations of the internal audit function.”



The charter for a public sector internal audit function should also be aligned with any jurisdictional requirements where the organization operates. As stated in the Considerations for Implementation for Standard 6.2, Other topics for consideration in the internal audit charter include:

Resource

For more information, see The IIA's "Model Internal Audit Charter for the Public Sector."

- Safeguards to objectivity and independence, including processes for addressing potential impairments and the frequency with which those safeguards are re-evaluated to ensure they achieve the desired result. (See also Standard 7.1 Organizational Independence.)
- Unrestricted access, including how the internal audit function accesses the data, records, information, personnel, and physical properties necessary to fulfill the **internal audit mandate**. However, the internal audit function must access and protect any information obtained from the organization in accordance with Standards 5.1 Use of Information and 5.2 Protection of Information. Communications, including the nature and timing of communicating with the board (governing body) and senior management.
- Audit process, including any expectations regarding communications with management in the area under review (before, during, and after an engagement) and how disagreements with management are handled.
- Quality assurance and improvement, including expectations for developing and conducting internal and external assessments of the internal audit function and communicating the results. (See also Standards 8.3 Quality and 8.4 External Quality Assessment, and Principle 12 Enhance Quality and its standards.)
- Approvals, including any circumstances specified by the board and senior management.

Creation and Operation of an Audit Committee – In some organizations, the governing body may create a subset of itself in an audit committee, directly overseeing audit activities. Audit committees have an essential role as advisors to the organization's governing body on all audit matters and any other areas defined in the charter (such as financial statements, risk, etc.). Alternatively, when a public sector organization does not have a governing body to oversee its operational activities, establishing an audit committee with members independent of management can be an effective way to increase the internal audit function's independence. The committee must have a strong understanding of internal auditing to be effective. The internal audit function and the appointing authority should ensure that the committee has members with expertise in governance, risk management, controls, and internal auditing within the public sector.

Depending on organizational needs, a combined audit and risk committee may be acceptable for the public sector. A public sector audit committee should focus more broadly than just financial information as the public sector faces a broader range of risks (see the "Public Sector Context" section for examples and additional information).

Additional competencies that may benefit audit committee members include specific public sector experience and knowledge as well as financial and IT knowledge – no member of the audit



committee needs to have all the required competencies. However, the full committee should be well-versed in audit topics relevant to the public sector organization. Audit committee appointments should be competency-based (rather than simply political appointments). The internal audit function should have a role in promoting and advocating for an effective audit committee. It is essential to ensure that the head of the organization (who may have the authority to appoint the chief audit executive) understands and supports the value of the audit committee and its expertise.

Another significant role of the audit committee is to help provide a layer of independence to the internal audit function, which is paramount for public sector organizations. This is generally accomplished by appointing members of the audit committee who are external to the organization's management. Leading practices indicate that to achieve an appropriate level of independence for the internal audit function, there should be more external members on the audit committee than internal management of the organization.

Consideration should also be given to the chair of the committee and their relationship with the chief audit executive to help ensure an adequate level of independence. Having audit committee members from outside the organization can help mitigate potential gaps in competencies and political risks that may arise in the public sector. The chief audit executive may be asked to provide input into potential members to assist with finding members with appropriate competencies. However, the governing body and the head of the organization should select and appoint audit committee members to protect against conflict of interest.

The audit committee is also integral to holding management accountable for responding to and implementing corrective action after the issuance of final audit communications. Processes should be outlined with the audit committee to allow for reporting from the chief audit executive when high-risk observations are not acted upon, following Standard 11.5, Communicating the Acceptance of Risk.

Other requirements in the Standards for the chief audit executive to report to the governing body include:

- Standard 6.1 Internal Audit Mandate: Periodically, the chief audit executive must assess whether changes in circumstances justify a discussion with the board and senior management about the internal audit mandate. If so, the chief audit executive must discuss the internal audit mandate with the board and senior management to assess whether the authority, role, and responsibilities continue to enable the internal audit function to achieve its strategy and accomplish its objectives. Additional details are included in the Essential Conditions for Standard 6.1.
- Standard 8.1 Board Interaction: The chief audit executive must provide the board with the information needed to conduct its oversight responsibilities. This information may be specifically requested by the board or may be, in the judgment of the chief audit executive, valuable for the board to exercise its oversight responsibilities.



- The chief audit executive must report to the board and senior management:
 - The **internal audit plan** and budget and subsequent significant revisions to them. (See also Standards 6.3 Board and Senior Management Support and 9.4 Internal Audit Plan.)
- Standard 8.3 Quality: At least annually, the chief audit executive must communicate the results of the internal quality assessment to the board and senior management. The results of external quality assessments must be reported when completed. In both cases, such communications include:
 - The internal audit function’s conformance with the Standards and achievement of performance objectives.
 - If applicable, compliance with laws and/or regulations relevant to internal auditing.
 - If applicable, plans to address the internal audit function’s deficiencies and opportunities for improvement.
- Standard 11.3 Communicating Results: The chief audit executive must communicate the **results of internal audit services** to the board and senior management periodically and for each engagement as appropriate. The chief audit executive must understand the expectations of senior management and the board regarding the nature and timing of communications.

The Global Internal Audit Standards do not always dictate the required reporting frequency. Still, leading practices encourage at least an annual reporting of issues not covered in regular meetings, such as the results of risk assessment and an External Quality Assessment (EQA). The glossary definition of “periodically” indicates each organization may need to specify and adjust regularly recurring intervals for such reporting based on their needs.

Audit committee roles and responsibilities and reporting expectations of the internal audit function should be clearly outlined in either the internal audit charter or an audit committee charter. (See the “Identify Internal Audit Stakeholders” and “Internal Audit Charter” sections.)

Additional Considerations

Collaboration with Other Assurance Providers – Generally, the standards that both internal and external auditors in the public sector follow require or encourage collaboration between the two assurance providers. Standard 9.5 Coordination and Reliance states:

“The chief audit executive must coordinate with internal and external providers of assurance services and consider relying upon their work. Coordination of services minimizes duplication of efforts, highlights gaps in coverage of key risks, and enhances the overall value added by providers. If unable to achieve an appropriate level of coordination, the chief audit executive must raise any concerns with senior management and, if necessary, the board [or governing body].”

Communication with external assurance providers is critical for building relationships that allow external auditors to rely on the work of the internal audit function. For one type of auditor to rely on another auditor’s work, some verification may need to be performed, and in doing so, as also



stated in Standard 9.5, “When the internal audit function relies on the work of other assurance service providers, the chief audit executive must document the basis for that reliance and is still responsible for the conclusions reached by the internal audit function.” As stated in the Considerations for Implementation for Standard 9.5, the chief audit executive for this verification “should develop a methodology for evaluating other providers of assurance and advisory services that includes a basis for relying upon their work. The evaluation should consider the providers’ roles, responsibilities, organizational independence, competency, and objectivity, as well as the due professional care applied to their work.”

In addition, the chief audit executive should understand the objectives, scope, and results of the work performed. Standards followed by external auditors may have similar verification requirements to allow for reliance on internal audit work. Cooperation between the internal and external audit functions can potentially increase audit efficiencies and lower external audit efforts and costs.

The Internal Audit Capability Model (IA-CM) for the Public Sector – The model was developed by The IIA’s Research Foundation in 2009 and updated in 2017 to reinforce the importance of internal audit in public sector governance and accountability. It is a framework that identifies the fundamentals for effective internal auditing in the public sector.

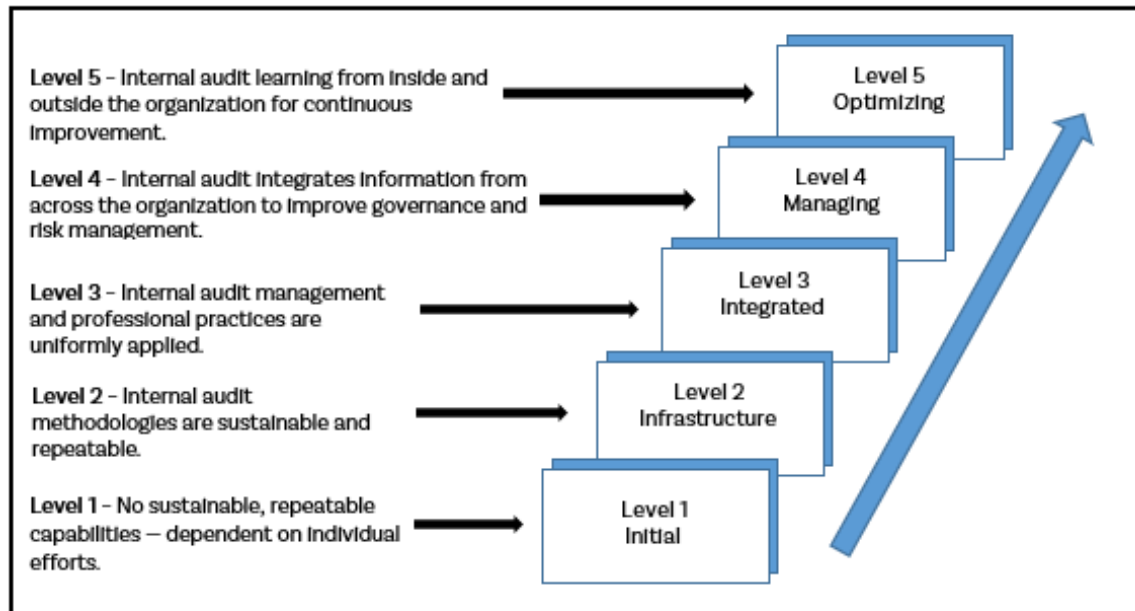
It describes an evolutionary path for a public sector organization to follow in developing an effective internal audit function to meet the organization’s governance needs and professional expectations. The IA-CM shows the steps in progressing from a lower level of internal audit maturity typical of a less-established organization to a higher level with strong, effective internal audit capabilities generally associated with a mature, complex, and high-performance organization.

The IA-CM (Figure 5) describes five levels of internal audit function maturity or competence according to its capabilities. On lower levels (1 and 2), capabilities are characterized by the absence of infrastructure, lack of adherence to established professional practices or partial compliance with professional standards, reliance on personal skills to perform engagements, and audit planning based on management priorities, among other factors. On higher levels (3, 4, and 5), capabilities are characterized by compliance with professional standards, focus on independence and objectivity, documentation of **methodologies**, quantitative measurement and management of risk, participation in the organization’s governance and risk management, and transformation into a learning organization with continuous process improvements and innovation.

Three variables should be considered when assessing the level of capability of a public sector internal audit function: the function itself, the organization, and the overall environment in which the organization operates. The internal audit function will need to consider any knowledge, competencies or needs for internal auditing specific to the public policy area of which the organization is a part (such as public safety, health care, or public works). A public sector organization has an obligation to determine the optimum level of internal audit capability to support its governance needs and to achieve and maintain the desired capability and performance levels.

However, not every organization requires the same internal audit capability or sophistication. The appropriate level will be commensurate with the nature and complexity of the public sector organization and the risks to which the organization may be exposed. There is no “one size fits all” with levels of maturity. The capability of the internal audit function is directly related to the actions taken by the chief audit executive to establish the methodologies needed to achieve and maintain internal audit capabilities and the measures taken by the organization’s management to establish a supportive environment for internal auditing. Internal audit services should be delivered in a cost-effective and efficient manner following the internal audit mandate.

Figure 5: Internal Audit Capability Model (IA-CM) Levels



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The IA-CM can be a useful tool to any public sector organization for:

- Determining the current level of maturity of the internal audit function by assessing itself against the various levels of the model.
- Determining its internal audit requirements and establishing strategic direction and expectations of the internal audit function, including a mechanism for measuring performance.
- Communicating and educating management, employees, and other key stakeholders, including the governing body on what effective internal auditing means and how it serves an organization and its stakeholders, and as a tool for advocating the importance of internal auditing to decision makers.
- Conducting and communicating the results of a quality assessment as a framework for evaluating the capabilities of an internal audit function against the Global Internal Audit Standards and other mandatory components of the IPPF or jurisdictional requirements, either as a self-assessment or an external quality assessment.

- Performing a skills assessment of current competencies compared to what may be required to improve the internal audit function.
- Developing a roadmap for orderly improvement and a process for building capability that sets out the steps an organization can follow to establish and strengthen its internal audit function.

Applying the Three Lines Model – The IIA’s Three Lines Model and Applying the Three Lines in the Public Sector helps organizations identify structures and processes that best assist in achieving objectives and facilitate strong governance and risk management. The model and its underlying principles apply to all organizations, including public sector ones; its strength is that it is visual and serves to engage management and other compliance functions and explain their roles.

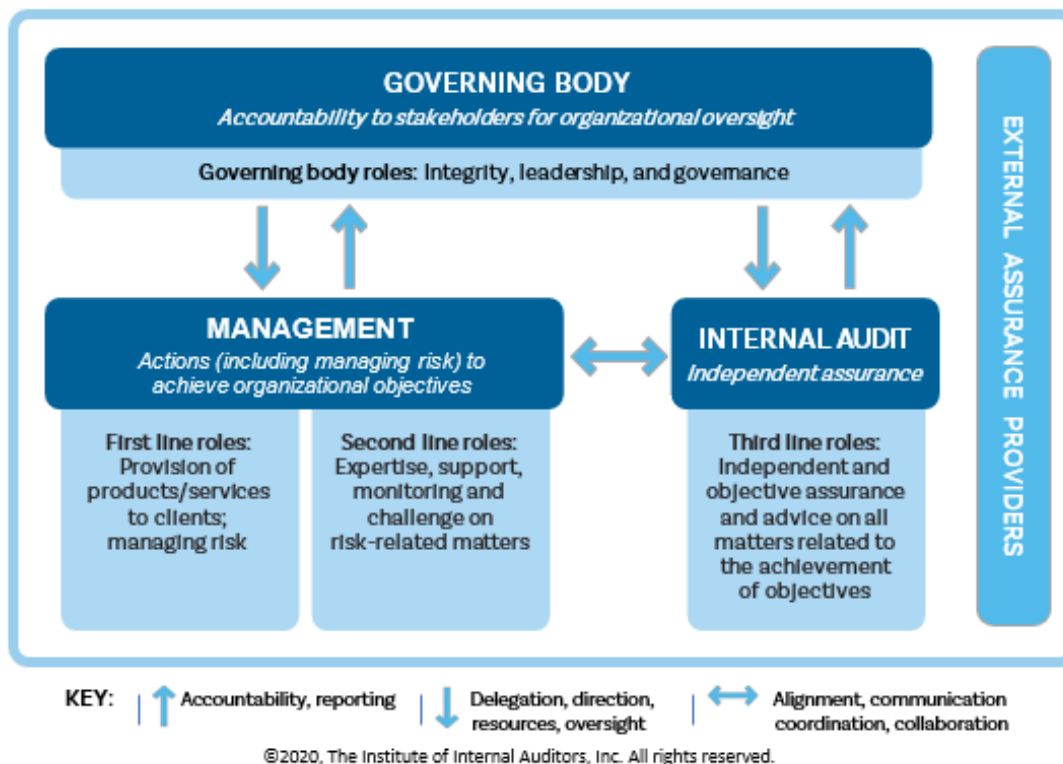
As the model outlines, the governing body of the organization, management, and internal auditing all have distinct responsibilities, although the activities should be aligned with the organization’s objectives. Among its responsibilities, the governing body has accountability to stakeholders for organizational oversight. Management has both first line and second line roles, depending on if they are directly involved in delivering services to the public or providing specialized risk and compliance services within the organization. It remains within the responsibility of management to manage risk to achieve organizational objectives.

Examples of functions that may be found in the second line include risk management, compliance, fiscal operations, and legal. These roles may include monitoring, advice, guidance, testing, analyzing, and reporting. The independence of the third line is what sets it apart. However, it is encouraged to interact regularly with the second line, providing assurance to assess the strength of the internal control framework. (See the “Collaboration with Other Service Providers” section.)

In its third line role, internal auditing provides independent and objective assurance and advisory services on all matters related to achieving objectives. Although the internal audit function may coordinate activities with the second line, they should not be performing or making management decisions around those duties. The internal audit function maintains primary accountability to the governing body and independence from management responsibilities. The chief audit executive should ensure the internal audit charter includes responsibilities for both functions that align with the model. (See “The Charter and Governing Body” section.) A priority for the internal audit function should be to determine whether the model is working within the organization and whether management is fulfilling its second line role.



Figure 6: The Three Lines Model



Considerations of Governance, Risk Management, and Control Processes - As stated in the Glossary definition of internal auditing in the Global Internal Audit Standards, internal auditing helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the organization’s governance, risk management, and control processes. Roles and responsibilities for these aspects should be established, documented, understood, and communicated at all levels of the organization and aligned with the Three Lines Model. Public sector internal auditors who successfully and proactively engage with their organizations on these topics have a high chance of demonstrating value to their governing bodies and management teams.

Standard 9.1 states, “To develop an effective internal audit strategy and plan, the chief audit executive must understand the organization’s governance, risk management, and control processes.” (See also the Strategic Plan and Develop a Risk-Based Audit Plan sections.) The standard includes items the chief audit executive must consider to understand the organization’s governance, risk management, and control processes, such as:

- Establishing strategic objectives and making strategic and operational decisions.
 - Overseeing risk management and control.
 - Promoting an ethical culture.
 - Delivering effective performance management and accountability.
 - Structuring its management and operating functions.
 - Communicating risk and control information throughout the organization.



- Coordinating activities and communications among the board (governing body), internal and external providers of assurance services, and management.
- Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations and programs.
 - Safeguarding of assets.
 - Compliance with laws and/or regulations.

The internal audit function must employ auditors with adequate knowledge and competencies to provide assurance on governance topics and processes, including risk management and control processes. (See the “Delivery Models” and “Staffing the Internal Audit Function” sections.) These topics should be audited to the extent that they align with the **risk appetite** established by the organization’s governing body and senior management.

In addition, COSO’s 2013 *Internal Control – Integrated Framework* can provide helpful assistance to the public sector internal auditor in reviewing and evaluating the organization’s controls, especially those related to the financial systems and processes.

Consideration of Fraud – Although the internal audit function’s main objective is not to audit with the intent of finding **fraud**, fraud and corruption are significant considerations in the public sector that should be given due diligence by internal auditors, especially in times of crisis with significant impacts to the public (such as economic, political, environmental, and health crises).

Resource

For more information on internal auditing’s role regarding fraud, see The IIA’s guidance titled “Internal Auditing and Fraud.”

The Global Internal Audit Standards include specific instances in which auditors must or should consider or meet specific requirements regarding fraud:

- The Considerations for Implementation for Standard 3.1 Competency state in part that internal auditors should develop competencies related to pervasive risks such as fraud.
- Standard 4.2 Due Professional Care says, “Internal auditors must exercise due professional care by assessing the ... [p]robability of significant errors, fraud, noncompliance, and other risks that might affect objectives, operations, or resources.” Standard 9.4 says, “The internal audit plan must ... [c]onsider coverage of information technology governance, fraud risk, the effectiveness of the organization’s compliance and ethics programs, and other high-risk areas.”
- Standard 11.1 Building Relationships and Communicating with Stakeholders suggests in the Considerations for Implementation that discussions the chief audit executive initiates with the board and management as well as surveys, interviews, and group workshops help obtain input on fraud and emerging risks.
- Standard 13.2 Engagement Risk Assessment says in part that, “Internal auditors must identify the risks to review by ... [c]onsidering specific risks related to fraud.”



Within the public sector, some internal audit functions may have a legislative mandate or requirement to perform any fraud investigations in which a need may arise within the organization and should be included in the charter. It is important to note that fraud investigations vary from traditional audit and advisory services, and some processes may need to be altered, including reporting considerations.

Many factors need to be weighed and taken carefully into consideration. Time is of the essence in a fraud investigation. The chief audit executive should ensure any staff assigned to a fraud investigation are adequately trained to ensure that, if necessary, evidence can be upheld in court. Internal auditors are not necessarily adept at fraud examination. If a fraud investigation is needed, this may be an opportunity to work with the governing body or senior management in considering the need to bring in specialized skills to assist. (See the “Delivery Models” section.)

Additionally, traditional reporting processes for assurance and advisory engagements may need to be modified for fraud investigations due to the potentially sensitive nature of the contents of those reports. Discretion should be applied, and reporting should be on a need-to-know basis (with consideration given to expectations as outlined in the internal audit charter) with legal considerations considered.

Environmental, Social and Governance (ESG) Considerations – The United Nations (UN) Sustainable Development Goals (SDGs), along with ESG issues, are becoming increasingly important, even within the public sector context, given the high focus by public sector organizations, politicians, and other stakeholders. The public sector should be the leader on these topics as they can severely impact the public. Careful consideration should be given to these topics during the risk assessment (See the “Perform an Organizationwide Risk Assessment” section).

The internal audit function should understand where the responsibility for compliance and reporting lies within the organization and at the central government level. As with any other risk or audit topic, the internal audit function must gain an understanding of the process and plan any assurance or advisory engagements accordingly. Any organization requirements related to ESG or SDGs should be included in the internal audit function’s risk universe for assurance consideration.

Any internal assurance engagements in these areas should be planned and performed within the context of the organization, and the chief audit executive must ensure adequate competencies exist within these subject areas or identify a way to obtain any specialized skill sets for technical areas. The internal audit function may consider breaking down these topics into auditable components carefully, considering the relevant risks, evidence of controls, and monitoring processes (such as second line reviews) currently in place.

IT Considerations – Many common IT risks and issues are also prevalent in the public sector. The public sector is responsible for maintaining and safeguarding all types of sensitive and personal identifiable information about citizens, such as including birth and death dates, addresses, motor vehicle information, health, and financial information.

Security and privacy issues regarding information maintained within systems that are both internal and external to the public sector organizations are essential. This becomes increasingly



important as new technologies reach the public sector, such as cloud computing. The internal audit function should address these IT aspects within the risk assessment. If competencies to audit these important topics do not exist within the current staffing, the chief audit executive may discuss outsourcing or cosourcing options with the governing body. (See the “Delivery Models” section.)

If internal auditors access sensitive and personal information when conducting internal audit engagements, they must adhere to Standard 5.1 and Standard 5.2.

Public sector internal audit functions must also work to stay current on other emerging IT issues and trends, such as artificial intelligence, cybersecurity, digitalization, and big data, and their potential impacts (both as concerns and opportunities) on public sector organizations.

Financial Management and Internal Control – External auditing (this may be an SAI, or an organization such as the State Accountant General Internal Audit Unit) holds the primary responsibility for auditing an organization’s financial reports. However, the internal audit function must consider the financial system in its risk assessment process. It may provide assurance on controls as they relate to systems and processes that ultimately affect the organization’s financial reports to help ensure the proper safeguarding and effective use of public funds (taking into consideration other assurance providers as well as the ranking as compared to other identified risks (See the “Planning” section). As stated previously, COSO’s *Internal Control – Integrated Framework* can be a valuable tool to assist in the assessment of controls.

In several places, including Europe, the Pacific, Africa, and Cambodia, the Public Expenditure and Financial Accountability (PEFA) assessments used by the International Monetary Fund (IMF) to measure the central agency and whole of government competence and capability in public financial management (PFM) can be used by auditors as a guide or tool for gap analysis and risk assessment. It is applicable regardless of the organization’s or government’s size.

The PEFA program was initiated in 2001 by seven international development partners: The European Commission, IMF, World Bank, and the governments of France, Norway, Switzerland, and the U.K. PEFA began as a means to harmonize assessment of PFM across the partner organizations. It subsequently established the PEFA framework, a standard methodology for PFM diagnostic assessments. Since 2001, PEFA has become the acknowledged standard for PFM assessments.



Managing the Internal Audit Function

Principle 10 Manage Resources states, “The chief audit executive manages resources to implement the internal audit function’s strategy and achieve its plan and mandate.”

Implementation of the following sections will help ensure conformance with this Principle.

Strategic Plan – Standard 9.2 Internal Audit Strategy states, “The chief audit executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders. An internal audit strategy is a plan of action designed to achieve a long-term or overall objective. The internal audit strategy must include a vision, strategic objectives, and supporting initiatives for the internal audit function. An internal audit strategy helps guide the internal audit function toward the fulfillment of the internal audit mandate. The chief audit executive must review the internal audit strategy with the board and senior management periodically.”

For every initiative, managers must have a structured notion of an organization’s position within its public policy area to identify high-level goals and objectives for its activities as it proceeds into the future. The same applies to a chief audit executive about their internal audit function within a public sector organization. A plan will also help the internal audit function stay relevant in a rapidly changing environment.

There are many frameworks to help chief audit executives establish an adequate strategic plan for the internal audit function (including the IA-CM shown in Figure 5). A strategic plan helps the internal audit function establish high-level goals for achievement in alignment with the organizational goals (and, in the public sector, potentially the overarching government’s goals). This does not include detailed assurance engagements with timeframes for completion, often called the annual audit plan. (See the “Develop a Risk-based Audit Plan” section).

Various tools are available to assist chief audit executives in developing a strategic plan for the internal audit function. These tools help structure thinking about the purpose, objectives, and outcomes that shape the business of the public sector organization and, therefore, help the chief audit executive facilitate the development of a strategic plan for the internal audit function that aligns with the organization’s (and possibly the hierarchical government’s) strategic plan. In addition to the required components, the internal audit function’s strategic plan could include a vision, mission, core values (which should be aligned with The IIA’s standards of ethics and professionalism), and goals. Identified objectives should include appropriate measures to determine progress and achieve success (see Standard 12.2 Performance Measurement.)

The chief audit executive may begin strategic planning by considering significant organizational matters and their understanding of the organization’s culture, risks, and operating environment. It is essential to understand the organization’s goals and how they relate to the goals of the



internal audit function; for example, whether those goals involve adding value, following mandatory requirements, or whether the organization plans to use the internal audit function for purposes other than independent and objective assurance.

The chief audit executive should consider the need for balance between adding value through formal assurance or advisory services and meeting management’s needs with potentially limited resources. The chief audit executive should utilize what was learned about the organizational culture and priorities of the governing body and management when establishing relationships and meeting with key stakeholders. (See the “Establishing Reporting Relationships” and “Identify Internal Audit Stakeholders” sections.)

If the internal audit function has applied the IA-CM, it should also include any activities or goals necessary to move the activity to the model scale toward desired capabilities. The strategic plan should encompass longer-term goals of progress, maturity, and achievement desired by the internal audit function, such as improved audit practices, an impact on the organization’s risk management culture, a perception that internal auditing is a partner and trusted advisor, a seat at the senior management table for the chief audit executive, timely reporting, and more.

Staffing the Internal Audit Function – Standard 10.2 Human Resources Management states, “The chief audit executive must establish an approach to recruit, develop, and retain internal auditors qualified to successfully implement the internal audit strategy and achieve the internal audit plan.

“The chief audit executive must strive to ensure that human resources are appropriate, sufficient, and effectively deployed to achieve the approved internal audit plan. *Appropriate* refers to the mix of knowledge, skills, and abilities; *sufficient* refers to the quantity of resources; and *effective deployment* refers to assigning resources to optimize the achievement of the internal audit plan.

“The chief audit executive must communicate with the board and senior management regarding the appropriateness and sufficiency of the internal audit function’s human resources. If the function lacks appropriate and sufficient human resources to achieve the internal audit plan, the chief audit executive must determine how to obtain the resources or communicate timely to the board and senior management the impact of the limitations.” (See also Standard 8.2 Resources.)”

Additionally, the internal audit function should include personnel from diverse backgrounds and different levels of experience. In the public sector, the internal audit function’s size will most likely be established through the budget process. (See the “Creating a Budget for the Internal Audit Function” section.)

The chief audit executive should work with the governing body and senior management to determine whether the established size of the function and mix between in-house, co-sourced, and outsourced staff is appropriate to adequately provide audit coverage to the organization’s audit universe. (See the “Delivery Models” section.) Smaller internal audit functions can be effective by focusing on critical risks. They may benefit from hiring more experienced auditors. In contrast, larger functions may benefit from a blend of staff new to auditing, more experienced auditors, and people from different academic and professional backgrounds. A small function



can work with its organization’s human resources function to assess minimum requirements and assess what skills, qualifications, and experience may be necessary.

Recognizing the extensive range of services provided by the internal audit function, Standard 3.1 states: “Internal auditors must possess or obtain the competencies to perform their responsibilities successfully... Additionally, the chief audit executive must ensure that the internal audit function collectively possesses the competencies to perform the internal audit services described in the internal audit charter or must obtain the necessary competencies.”

As a starting point and as a reference for chief audit executives and managers to identify the proficiencies required for internal audit work, The IIA published The Internal Audit Competency Framework. This framework can serve as a tool for creating development plans for auditors at each stage of their career, and it can also be used for benchmarking and comparing skills that exist and may be needed for an effective internal audit function. The framework defines four knowledge areas – Professionalism, Performance, Environment, and Leadership and Communication – and identifies criteria to assess an auditor’s competencies at three levels: general awareness, applied knowledge, and expert practitioner. Public sector-specific context may need to be applied by the chief audit executive (or other experienced leader in the internal audit function).

The framework can be utilized as an onboarding tool for new staff or in establishing a training plan for individual staff, as well as assisting the chief audit executive in identifying and filling skill gaps for the internal audit function. The framework may also be beneficial as a benchmarking tool and in developing detailed position descriptions, essential in establishing expectations with audit staff and as a baseline for evaluating performance. Although competencies required for an auditor are not sector specific, public sector and private sector internal auditors may have different competencies. For example, public sector internal auditors often have proficiencies in procurement, government policy, and service delivery.

Standard 10.2 goes on to state, “The chief audit executive must evaluate the competencies of individual internal auditors within the internal audit function and encourage professional development. The chief audit executive must collaborate with internal auditors to help them develop their individual competencies through training, supervisory feedback, and/or mentoring.” It is important for staff morale to develop a work environment in which auditors understand their roles, how these roles fit into the organization and add value to the organization’s objectives, and how individual performance can contribute to the overall mission of the internal audit function.

Standard 7.2 Chief Audit Executive Qualifications puts the responsibility for informing the governing body on the appropriate qualifications and competencies of a chief audit executive necessary to manage the internal audit function on the chief audit executive. It goes on to state, “The chief audit executive must maintain and enhance the qualifications and competencies necessary to fulfill the roles and responsibilities expected by the board. (See also Principle 3 Demonstrate Competency and its standards.)”

In terms of hiring or appointing a chief audit executive, prior relevant and diverse experience is considered necessary to deliver internal audit results successfully. (The chief audit executive



could have gained this experience from various public sector organizations). Knowledge of the IPPF and any other relevant auditing standards is essential, as are other key skills, including writing and other methods of communication, management experience, and related competencies such as applying ethical values. Input from the governing body is important because it can help decision-makers select a candidate who may be an excellent fit to meet the organization's expectations.

If possible, a hiring or appointing organization should consider selecting a pool of candidates and inviting them for interviews. Recruiting efforts should occur inside and outside the organization, and consideration should be given to utilizing public advertisements and recruiting companies if resources allow. The candidate search should be undertaken with a full understanding of the organization's specific needs and the specificities of internal auditing in the public sector. Additionally, benefits other than compensation may need to be marketed to potential candidates as the public sector may not be able to compete with salary ranges offered in the private sector.

For audit staff, a chief audit executive may consider hiring or selecting individuals with technical qualifications or other competencies and using formal and on-the-job training to develop the required technical audit skills. Additionally, staff rotations may serve this purpose by introducing audit staff to different areas of an organization or public policy. They can benefit from supplementing independence and objectivity by bringing in fresh perspectives.

With the cosourcing (or partnering) model, the chief audit executive may be able to utilize competencies across the organization in audit work to expose employees in other parts of the organization to auditing and to improve operational competencies of the internal audit staff as well as the effectiveness of internal audit work. Consideration may need to be given to hiring or selecting specialized experience or competencies depending on the public policy area, key risks, and audit plan.

For example, a major IT component to the risk assessment and audit plan could justify hiring or selecting an auditor with specialized IT experience and knowledge. However, most internal audit functions will also benefit from some "generalist" audit staff. (See the "Delivery Models" section.) Consideration should also be given to specific specialist skills that may be better obtained from service providers on an ad hoc basis rather than hiring full-time staff to fulfill the skill set.

Certification such as The IIA's Certified Internal Auditor (CIA) or Certificate in Risk Management Assurance (CRMA) can also be valuable in demonstrating the competencies of internal audit leadership and staff and improving the credibility of the internal audit function as it works with the organization's governing body and senior management. In the U.K., in addition to the Chartered Internal Auditor qualification, a Public Sector Internal Audit certificate is offered through the Chartered Institute of Internal Auditors, an affiliate of The IIA.

Creating a Budget for the Internal Audit Function – Standard 10.1 Financial Resource Management states, "The chief audit executive must manage the internal audit function's financial resources. The chief audit executive must develop a budget that enables the successful implementation of the internal audit strategy and the achievement of the plan. The budget includes the resources necessary for the function's operation, including training and acquisition



of technology and tools. The chief audit executive must manage the day-to-day activities of the internal audit function effectively and efficiently, in alignment with the budget.

The chief audit executive must seek budget approval from the board. The chief audit executive must communicate promptly the impact of insufficient financial resources to the board and senior management.”

Whether the public sector chief audit executive will be responsible for developing a budget depends on where the internal audit function resides within the organization, the size of the activity, and the public financial management rules that apply to each government jurisdiction. If the chief audit executive is responsible for creating a budget, this may be one of the biggest challenges to establishing or rejuvenating a function. Most public sector organizations face intense competition for limited resources. In addition, there may be political pressures associated with taxpayer demands for increased efficiency in government balanced with the desire for lower public administration costs and taxes. All these factors may result in fewer resources available for allocation across public sector entities.

Therefore, the chief audit executive’s challenge becomes justifying how many and what resources are needed to meet the strategic and annual audit plans (which should align with components discussed in the “Staffing the Internal Audit Function” section of this guidance). Regular communication with key internal stakeholders also helps to ensure sufficient resources are available, what can be delivered within the budget constraints, and, equally important, what cannot be delivered due to the budget constraints.

The funding processes for internal audit functions vary widely in the public sector. Some governance and organizational structures do not give the governing body and senior management authority over the budget. These conditions prevent the chief audit executive from being able to seek budget approval from the board and senior management and limit the ability to seek or obtain additional funding due to other funding priorities within the organization. In jurisdictions and organizations with these limitations, the chief audit executive should follow Standard 4.1 and explain the steps taken to approve the budget for the internal audit function. The governing body should advocate to senior management to ensure the internal audit function has an adequate budget to carry out its purpose and mandate.

Establishing an Internal Audit Manual – Standard 9.3 Methodologies states in its Requirements: “The chief audit executive must establish methodologies to guide the internal audit function in a systematic and disciplined manner to implement the internal audit strategy, develop the internal audit plan, and conform with the Standards.”

In its Considerations, the standard additionally states, “The form, content, level of detail, and degree of documentation of methodologies may differ based on the size, structure, complexity, industry/regulatory expectations, and maturity of the organization and the internal audit function.”

Some typical topics to address in methodologies, sometimes referred to as an **internal audit manual**, which should be aligned with the Global Internal Audit Standards, and many of which are expanded upon in other sections of this guidance, include:

- Ethics and professionalism.
- Hiring, training, and retention practices.
- Continuous professional development, which should align with The IIA's Competency Framework, the annual risk assessment, and the audit plan process.
- Procedures for audit planning, performance, and communicating results.
- The quality assurance and improvement program.
- Monitoring the implementation of audit recommendations.
- Requesting and responding to feedback from stakeholders.

Quality Assurance and Improvement Program – Standard 8.3, in its Requirements states: “The chief audit executive must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program includes two types of assessments:

- External assessments. (See also Standard 8.4 External Quality Assessment.)
- Internal assessments. (See also Standard 12.1 Internal Quality Assessment.)

At least annually, the chief audit executive must communicate the results of the internal quality assessment to the board and senior management. The results of the external quality assessments must be reported when completed. In both cases, such communications include:

- The internal audit function's conformance with the Standards and achievement of performance objectives.
- If applicable, compliance with laws and/or regulations relevant to internal auditing.
- If applicable, plans to address the internal audit function's deficiencies and opportunities for improvement.”

(See the Considerations for Implementation for Standard 8.3 for additional items an assessment may include.)

A QAIP program also includes ongoing internal monitoring. The program should be designed to help the internal audit function add value, improve the organization's operations, and provide assurance that the activity is in conformance with the Standards. It can be a valuable practice for identifying performance gaps that can help a chief audit executive rejuvenate a weak internal audit function or identify areas of the Standards that a new function has not yet successfully implemented. Prioritizing areas for improvement should be part of the internal audit function's strategic plan. (See the “Strategic Plan” section.) and done in conjunction with the governing body.

In addition to 8.3, 8.4, and 12.1, other relevant Principles and Standards are:

- Standard 3.1 Competency
- Standard 4.1 Conformance with the Global Internal Audit Standards
- Standard 8.1 Board Interaction



- Standard 9.3 Methodologies
- Principle 12 Enhance Quality
- Standard 12.2 Performance Measurement
- Standard 12.3 Oversee and Improve Engagement Performance
- Standard 15.1 Final Engagement Communication

Standard 8.4 states that an external assessment must be performed at least once every five years by a qualified, independent assessor or assessment team. The governing body should be responsible for selecting a team to perform the quality assessment to protect against the potential for conflict of interest. The IIA can be a resource in selecting an external assessment team, or the internal audit function may work through their local IIA chapter or affiliate for ideas and resources. A public sector internal audit function should ensure quality assessors have adequate public sector knowledge.

Another option is a self-assessment with independent validation; however, this should only be considered by an internal audit function with adequate staff to perform this assessment independently and objectively. An assessment resulting in “generally conforms” at least every five years is required for an internal audit function to state in its audit reports that it conducts its work following the IPPF. This statement is important to an internal audit function’s credibility as it enforces the professionalism and due professional care with which the assurance and advisory engagements were conducted. It helps the governing body and management recognize their ability to rely on the results of the internal audit function’s work.

Internal assessments must also be conducted periodically; leading practices indicate one should be performed annually but at least once between external assessments. The IIA’s *Quality Assessment Manual* can be a valuable resource for the internal audit function to prepare for an external assessment or perform an internal assessment.

Ongoing monitoring processes should be an established part of day-to-day internal audit procedures and should be included in the internal audit function’s methodologies. (See the “Establishing an Internal Audit Manual” section.) Together, these steps should help ensure the quality of reported results of the function’s assurance and advisory engagements. An internal audit function may find it helpful to establish a checklist of relevant standards to perform a quality review of completed engagements before issuing reports.

Challenges the chief audit executive may face in implementing the QAIP include:

- The cost for external resources to conduct the five-year assessment should be included in the internal audit function’s budget. (See the “Creating a Budget for the Internal Audit Function” section. See also the “Applying the Global Internal Audit Standards in the Public Sector” section for information on peer programs.)

Resources

For more information, see The IIA’s “Conformance Readiness Assessment Tool” and *Quality Assessment Manual*.



- Adequate staffing resources for small internal audit functions to have reviewers available independent of those who conducted the assurance engagement.
- Adequate time available on the annual audit plan for periodic internal assessments and preparation for the external assessment.

Managing IT Resources – Standard 10.3 Technological Resources states, “The chief audit executive must strive to ensure that the internal audit function has technology to support the internal audit process. The chief audit executive must regularly evaluate the technology used by the internal audit function and pursue opportunities to improve effectiveness and efficiency. When implementing new technology, the chief audit executive must implement appropriate training for internal auditors in the effective use of technological resources. The chief audit executive must collaborate with the organization’s information technology and information security functions to implement technological resources properly. The chief audit executive must communicate the impact of technology limitations on the effectiveness or efficiency of the internal audit function to the board and senior management.”

As explained in the Applying the Global Internal Audit Standards in the Public Sector section of the Standards, public sector internal audit functions may face challenges in acquiring and maintaining technological resources, such as the inability to obtain adequate budget and restrictions on what software is allowed by policy. These challenges must be discussed with the governing body and documented.



Performing Internal Audit Services

Planning

Define the Audit Universe – As described in the Considerations for Implementation for Standard 9.4: “One approach to preparing the **internal audit plan** is to organize potentially auditable units within the organization into an audit universe to facilitate the identification and assessment of risks. An audit universe is most useful when it is based on an understanding of the organization’s objectives and strategic initiatives and aligned with the organization’s structure or risk framework. Auditable units may include business units, processes, programs, and systems. The chief audit executive can link those organizational units to key risks in preparation for a comprehensive risk assessment and the identification of assurance coverage throughout the organization. This process enables the chief audit executive to prioritize the risks to be evaluated further during internal audit engagements.

To strive to ensure that the audit universe and risk assessment cover the organization’s key risks, the internal audit function should independently review and validate the key risks that were identified within the organization’s risk management system. The internal audit function should only rely on management’s information about risks if it has concluded that the organization’s risk management processes are effective.”

A new chief audit executive should take the time to learn and keep up to date with their knowledge about the organization, which can be done by interviewing key members of the governing body and management and through reviewing key governance documents such as, but not limited to:

- Governing laws, rules, and regulations.
- National or jurisdictional strategies or agendas.
- Related SDG and PEFA assessments.
- Strategic plans for the organization and business plans for key operational programs.
- Budget documents.
- Organization charts.
- Existing risk registers or risk management documentation.
- Performance measures and reporting.
- Significant policies.
- Minutes of recent governing body meetings.
- External audit reports and any other key reports from other external oversight bodies.



The chief audit executive should develop an audit universe based on interviews, a review of the documents, and consideration of the internal audit function's strategic plan. The universe will be based on and in alignment with the organization's key operational objectives, organizational structure, and strategic plan. It becomes a criterion for assessing risk and ultimately prioritizing the proposed audit plan topics.

Perform an Organizationwide Risk Assessment – Standard 9.4 states, “The chief audit executive must base the internal audit plan on a documented assessment of the organization's strategies, objectives, and risks. This assessment must be informed by input from the board and senior management as well as the chief audit executive's understanding of the organization's governance, risk management, and control processes. The assessment must be performed at least annually.”

A risk is the possibility of an event occurring that may impact the ability of an organization to achieve its objectives. Auditors perform risk assessments at two levels for distinct purposes. An organizationwide risk assessment is performed to plan the internal audit function's assurance and advisory engagements for a period to achieve the best possible utilization of limited internal audit resources. Risk is also assessed at the beginning of each engagement (see Planning Individual Engagements). Because the primary purpose of an internal audit function is to help the organization achieve its mission, goals, and objectives, assisting the organization in identifying and assessing the risks that may prevent it from achieving its objectives is of the utmost importance.

Risk assessment is a subjective process, and there are a multitude of methodologies and formats for an internal audit function to incorporate and utilize for their organization. The IIA's website is useful for locating guidance, resources, and training on conducting an organizationwide risk assessment.

Additionally, COSO's *Enterprise Risk Management - Integrating with Strategy and Performance* is a helpful resource that provides a framework for recognizing the organization's risks and identifying areas to be audited. ISO 31000 is foundational to understanding risk and has supported the establishment of other frameworks. An analysis of strengths, weaknesses, opportunities, and threats (SWOT) may also be helpful in structuring the risk assessment process.

Resource

For more information on creating an internal audit plan and on comprehensive risk-based planning, see The IIA guidance, “Developing a Risk-based Internal Audit Plan.”

The internal audit function should consider taking a stepped approach to the risk assessment. The first step may be to review the organization's risk management culture to determine the environment. Such a review would include determining whether the organization formally considers risk and values the risk management process and reporting. Internal auditors may periodically (at least annually) review risk management culture by comparing expectations with the actual culture and providing a formal opinion based on the results of the review. The internal audit function should develop an understanding of the organization's risk appetite (which may be mandated for some public sector organizations).



Additionally, during the risk assessment process, the internal audit function should consider what is happening within the overarching government and the organization's external operating environment, as both will likely impact the organization's internal operating environment.

The next significant step in the process is to obtain feedback on current risks from key internal and external stakeholders (using the stakeholders identified through the process discussed earlier in this guidance). Feedback can be obtained through interviews, surveys, facilitated discussions, focus groups, or other means. Care should be taken to safeguard risk information as it is collected and documented due to the sensitive nature of the public sector environment.

Risks should be documented and analyzed in terms of impact (whether the risk event occurred and what level of consequence could affect the organization) and probability (the **likelihood** of the risk impacting the ability to achieve objectives). Management input should be obtained in the analysis process and the outcome of the analysis should be compared to the organization's risk appetite and used to prioritize risks for audit planning. Auditors should also use the risk assessment process to identify potential opportunities the organization may want to pursue to improve its ability to provide services to the public.

Develop a Risk-based Audit Plan – Standard 9.4 requires the chief audit executive to create an internal audit plan that supports the organization's objectives. As explained in the previous section, the audit plan must be based on an assessment of risks to meeting the organizational strategy and objectives. The chief audit executive's comprehensive assessment of all the organization's risks and the organization's management thereof helps prioritize the focus of audit resources. The resulting audit plan is subject to continuous reassessment as new risks and priorities emerge.

Other factors besides risk will influence the decision of which areas to audit in the public sector, including but not limited to:

- Any mandated audit coverage (from laws, rules, regulations, or policies).
- Changing circumstances in the organization's services, operations, programs, systems, processes, controls, or risk environment.
- The potential benefit(s) to be achieved from the engagement.
- The skills and competencies of available audit staff.
- Requests from senior management or other key stakeholders (even suggestions from external auditors).

Organizations with small internal audit functions may have a greater risk exposure because they may not have adequate resources to cover all areas that should be audited. Therefore, it is important that the chief audit executive adequately expresses budget needs in terms of risk coverage to those with budgetary authority. The more audit resources available, the more assurance work can be provided over identified risk areas.

As the chief audit executive develops the audit plan, the need to add value through quality assurance work must be balanced with meeting the needs of the governing body and



management. With limited resources, the internal audit function must clearly communicate how much assurance and advisory work can be performed while balancing other responsibilities.

Audit plans typically cover one fiscal year at a minimum or can be created in six-month or other time period increments to allow the internal audit function to be more flexible and responsive to emerging risks. If a function has a regular audit cycle, a three- to five-year rolling plan that is flexible to allow for annual or semi-annual strategic additions, regularly updated and reported to the governing body, may provide more insight and transparency into the risk coverage included in the internal audit function's planning. The chief audit executive should consider budgeting time in the audit plan for changing conditions and requests that may arise. Such situations should be reviewed with the governing body before the plan is formally revised.

Performing Engagements

Planning Individual Engagements – In addition to the risk-based audit plan, Standard 13.3 Engagement Objectives and Scope states, “Internal auditors must establish and document the objectives and scope for each engagement. The **engagement objectives** must articulate the purpose of the engagement and describe the specific goals to be achieved, including those mandated by laws and/or regulations. The scope must establish the engagement's focus and boundaries by specifying the activities, locations, processes, systems, components, time period to be covered in the engagement, and other elements to be reviewed, and be sufficient to achieve the engagement objectives.” In addition, Standards 13.5 Engagement Resources and 13.6 Work Program include specifics on resource allocation and work program.

Standard 13.2 requires an Engagement Risk Assessment and states in part, “To develop an adequate understanding, internal auditors must identify and gather reliable, relevant, and sufficient information regarding:

- The organization's strategies, objectives, and risks relevant to the activity under review.
- The organization's **risk tolerance**, if established.
- The risk assessment supporting the internal audit plan.
- The governance, risk management, and control processes of the activity under review.
- Applicable frameworks, guidance, and other criteria that can be used to evaluate the effectiveness of those processes.
- Internal auditors must review the gathered information to understand how processes are intended to operate.”

Additionally, leading practices suggest reviewing the previous audit history of the activity under review with an emphasis on obtaining an understanding of key issues that were previously raised and if they have been addressed.

Conducting Engagements – Gathering sufficient, reliable, relevant, and useful information while conducting engagements is the natural result of planning. The related IIA Standards are:

- Principle 14 Conduct Engagement Work.
- Standard 14.1 Gathering Information for Analysis and Evaluation.



- Standard 14.2 Analyses and Potential Engagement Findings.
- Standard 14.6 Engagement Documentation.

According to Standard 14.1, internal auditors must identify, analyze, evaluate, and document sufficient, reliable, relevant, and useful information to achieve the engagement objectives.

In auditing, sufficient evidence means “enough” evidence. The auditor should collect enough information so another auditor reviewing the information would reach the same conclusion given the evidence collected.

Relevance relates to the reliability of information. The best expression for describing the reliability of evidence is competence. Competent evidence means that it substantiates the conclusion(s) it supports. Additionally, reliable information is accurate, complete, and valid.

A key factor in determining the sufficiency and relevance of evidence is the reliability of the source of information. Generally, the most objective source of evidence is the auditor. Original evidence gathered directly or observable by the auditor or provided directly by an objective third party is typically the most reliable. Evidence provided by the organization's management or staff should be validated with corroborating evidence.

The strength of the sufficiency and the reliability of the evidence gathered increases the credibility of the information used to draw conclusions from the engagement. Relevant evidence means it relates to the audit objective (it answers questions from the **engagement planning** phase).

Useful evidence allows the auditor to meet the engagement's assurance goals. The process of gathering useful evidence is one of the most important roles of the internal audit function. Standard 14.2 states, “Internal auditors must analyze relevant, reliable, and sufficient information to develop potential engagement **findings**.” This standard refers to the collection of evidence that will support the conclusion. The primary tests used to collect this evidence are known as substantive tests, specifically analytical procedures (data analysis to draw high level observations) and tests of details (or transaction testing, in which evidence is gathered specific to the testing objective).

Audit Engagement Supervision – Standard 12.3 states, “The chief audit executive must establish and implement methodologies for engagement supervision, quality assurance, and the development of competencies. Audit supervision is a crucial phase of the engagement process because it has a direct impact on the collection of evidence and ensuring the adequacy and accuracy of support to the conclusions as well as conformance with audit standards. The more efficient the supervision, the more effective the collection of evidence thereby making the conclusion process proceed smoothly.”

Often, public sector organizations are limited in resources, and therefore internal audit functions in the public sector may be smaller. If the internal audit function is unable to provide adequate supervision due to resource constraints, the chief audit executive must consider compensating controls to ensure the adequacy and accuracy of audit evidence and **workpapers**.



Supervision is a process that begins with engagement planning and continues throughout the engagement. Among other activities, the process includes:

- Ensuring designated auditors collectively possess the required knowledge, skills, and other competencies to perform the engagement.
- Providing appropriate instructions while planning the engagement and approving the **engagement work program**.
- Ensuring the approved engagement work program is completed unless changes are justified and authorized.
- Determining the engagement work papers provide sufficient support for engagement observations, conclusions, and recommendations.
- Ensuring engagement communications are accurate, objective, clear, concise, constructive, and timely.
- Ensuring engagement objectives are met.
- Providing opportunities for developing internal auditors' knowledge, skills, and other competencies.

Reporting and Monitoring

Communicating Results – A further step in the engagement process is communicating the final results. A final engagement communication is the primary method for the internal audit function to demonstrate its effectiveness to the governing body, management, and key stakeholders. However, it is also important that auditors have a chance to present the key information from the report to allow discussion and showcase the added value of the audit work to the organization.

Principle 15 and its standards discuss communication of **engagement results**. The chief audit executive determines how and to whom the final engagement communication is disseminated. Oral presentations are usually supported with a digital or printed copy and/or a written report. Specifically, Standard 15.1 states, “The final communication must be accurate, objective, clear, concise, constructive, complete, and timely, as described in Standard 11.2 Effective Communication.” The internal audit function’s internal audit manual should establish processes to ensure each element is met in communications issued. (See the “Establishing an Internal Audit Manual” section.)

Disseminating results to the appropriate parties, an important phase of communicating results, is covered in Standard 11.3 under Engagement Communications, which states, “The chief audit executive must review and approve final engagement communications, which include **engagement conclusions**, and decide to whom and how they will be disseminated before they are issued. If these duties are delegated to other internal auditors, the chief audit executive retains overall responsibility. The chief audit executive must seek the advice of legal counsel and/or senior management as required before releasing final communications to parties outside the organization, unless otherwise required or restricted by laws and/or regulations.” (See also Standards 11.4 Errors and Omissions, 11.5 Communicating the Acceptance of Risks, and 15.1 Final Engagement Communication.) The internal audit function may consider distributing internal



audit reports to appropriate parties, both internal and external to the organization, including but not necessarily limited to the governing body, direct management of the audited subject, senior management, external assurance providers, and other government organizations with oversight to the organization. A leading practice is to provide shorter executive summaries that include the engagement's key points and only distribute this summary to some parties and stakeholders. These summaries also can specify where management's action is most needed.

An internal audit function's primary audience is inside the organization. Whether public sector internal audit engagement communications are published or available to the general public will depend on the requirements of the jurisdiction in which the organization resides. For example, some federal and municipal level entities may have requirements to send reports to specific legislative bodies. Additionally, in the U.K., with some exceptions, internal audit reports are generally published when included as part of publicly available committee papers.

One risk to public issuance of internal audit engagement communications is the potential for underreporting to avoid public scrutiny, whereas the focus should be on objective and factual reporting. Most public sector organizations have public records requirements in which engagement communications, including drafts and, in some cases, the audit evidence supporting engagement results, are accessible to the public. The chief audit executive must become knowledgeable of the laws and regulations within their jurisdiction regarding public records requirements around the internal audit function's work and document methodologies in the internal audit manual to address those requirements. (See the "Establishing an Internal Audit Manual" section.)

There may be allowances within those regulations to redact sensitive information, such as information around the assessment of cybersecurity risks. Internal auditors should ensure they know what information can be shared publicly and what information should be protected in the public interest; as well as following the requirements in Standard 5.2 when it applies. For example, legislative requirements such as the European Commission's Regulation (EU) 2016/679 on the protection of natural persons regarding the processing of personal data and on the free movement of such data, known as the General Data Protection Regulation (GDPR), should be taken into consideration for affected internal audit functions.

In alignment with Standard 11.2, the methodologies for effective communication should ensure that such communications are appropriately timed according to the issue's **significance** and allow management to take corrective action. Timeliness may differ for each organization and depend upon the nature of the engagement. The internal audit function should strive for succinct communications that encourage management to act when risk is prevalent. Internal auditors should work with management on issues raised to develop implementable and cost-effective recommendations to mitigate risks and help ensure the achievement of organizational objectives.

Resource

For additional information on reporting, consider "Team Leader's Guide to Internal Audit Leadership" by Bruce Turner, available from The IIA.



Final engagement communications must include the accountability component for observations and uncovered issues. In alignment with Standard 15.1, internal auditors must develop for each engagement a final communication that includes the engagement’s objectives, scope, recommendations and/or action plans if applicable, and conclusions. The chief audit executive should encourage internal auditors to acknowledge satisfactory and positive performance in engagement communications.

Follow-up and Monitoring - Monitoring is usually the final phase of an engagement as outlined in Principle 15 Communicate Engagement Results and Monitor Action Plans, and its related Standard 15.2 Confirming the Implementation of Recommendations or Action Plans, which states, “Internal auditors must confirm that management has implemented internal auditors’ recommendations or management’s action plans following an established methodology.”

This process should be included in the internal audit function’s audit manual. (See the “Establishing an Internal Audit Manual” section.) Internal auditors should evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations, including those made by external assurance providers and others. The chief audit executive should determine the nature, timing, and extent of follow-up procedures after considering various factors, and the level of effort can be based on the risk level as highlighted in the findings.

Careful consideration should be given to significant time gaps in implementation. More subjective components of the monitoring process include how often monitoring is performed, whether a formal report is issued and whether the auditor must perform work to validate management’s responses to implementation inquiries. Leading practices indicate monitoring should continue until corrective action has been implemented or management has accepted the risk of not taking action. If management accepts a risk the chief audit executive deems to be too high, the chief audit executive must refer to Standard 11.5, which requires the chief audit executive to discuss the matter with senior management and, if left unresolved, must be escalated to the governing body.

Additionally, the chief audit executive should consider reporting periodically to the governing body and senior management on the changes made in the organization due to audit work. This is another way to demonstrate the added value of the internal audit function’s work and support future requests for additional audit resources. (See “Creating a Budget for the Internal Audit Function” and “Creation and Operation of the Audit Committee.”)

Assessing Feedback - Leading practices suggest receiving feedback from those receiving internal audit services after reports are issued is a good way to feed information into the continuous improvement of the internal audit function. Surveys provide communication and feedback from management and key organizational staff who participated in the audit process and received engagement results. The chief audit executive may also obtain this feedback through exit conferences, closing communications or other meetings. Input from recipients of internal audit services and other stakeholders can assist the chief audit executive in reporting on performance metrics of the internal audit function to the governing body. (See the “Strategic Plan” section.) Feedback can be useful in improving internal audit performance and ensuring the value internal audit adds to the organization.



Additionally, the chief audit executive may consider other means of obtaining feedback on the internal audit function's effectiveness, such as periodic assessments by the governing body and senior management or general stakeholder surveys.



Assessing an Existing Function to Determine Efforts to Improve

This guidance encompasses how to establish an effective internal audit function in the public sector and how to improve an existing function. Some specific considerations for an existing function, in which the chief audit executive either recognizes the need for significant improvement or has been hired or tasked with the responsibility of improving a function, are discussed in detail in this guide and are summarized here:

- Review the latest external quality assessment (EQA) results. If an EQA has not been recently completed or completed in accordance with the IPPF, consider having, at minimum, an internal assessment performed to help identify the gaps in conformance and potentially most effective and urgent areas for improvement.
- Perform a self-assessment against the IA-CM (Figure 5).
- Interview key stakeholders to gain insights on how expectations compare to recent interactions with stakeholders and outputs of the internal audit function.
- Assess how the internal audit function is perceived and the culture of the organization relative to internal audit.
- Review the internal audit budget, capacity, and recent accomplishments toward its audit plan to determine whether the size and structure of the internal audit function are adequate.
- Review competencies and skills of current internal audit staff and compare to current and future planned audit work and top risk assessment topics.
- Compare the alignment of the internal audit function's strategic and annual audit plan with the organization's objectives and strategic plan.
- Compare adopted internal audit frameworks and methodologies with international public policy sector best practices such as the IPPF, COSO's internal control and risk management frameworks, and specialized topical frameworks such as ISACA's COBIT.
- Review the composition of the audit committee, experience levels of members, meeting minutes, and other meeting materials to assess the effectiveness of the governance of the internal audit function.
- Review QAIP practices for opportunities for improvement.
- Review recently issued final audit communications and any other reports issued or provided to management or the governing body.
- Review the monitoring process and determine how timely audit recommendations are being implemented by management.



Conclusion

The Global Internal Audit Standards provide a globally recognized framework for building an effective internal audit function in a public sector organization, covering all aspects from the purpose and mandate of an audit function to positioning, management, and performance. Chief audit executives should ensure the Standards inform their strategic and operational planning. Auditors should understand the practical implications of implementing the Standards in their work.

Additionally, chief audit executives can leverage the Standards when communicating with the governing body, senior management, and other stakeholders about the conditions necessary to optimize the value provided by the internal audit function. This guide's structured approach to building a high-performing internal audit function along with a capability model maturity scale enable chief audit executives to establish and continuously improve the internal audit function's services.



Appendix A. Relevant IIA Standards and Guidance

The following IIA resources were referenced in this guide.

Standards

2.2 Safeguarding Objectivity

3.1 Competency

4.1 Conformance with the Global Internal Audit Standards

4.2 Due Professional Care

5.1 Use of Information

5.2 Protection of Information

6.1 Internal Audit Mandate

6.2 Internal Audit Charter

6.3 Board and Senior Management Support

7.1 Organizational Independence

7.2 Chief Audit Executive Qualifications

8.1 Board Interaction

8.2 Resources

8.3 Quality

8.4 External Quality Assessment

9.1 Understanding Governance, Risk Management, and Control Processes

9.2 Internal Audit Strategy

9.3 Methodologies

9.4 Internal Audit Plan

9.5 Coordination and Reliance

10.1 Financial Resource Management

10.2 Human Resource Management

10.3 Technological Resources

11.1 Building Relationships and Communicating with Stakeholders

11.2 Effective Communication

11.3 Communicating Results



11.4 Errors and Omissions

11.5 Communicating the Acceptance of Risks

12.1 Internal Quality Assessment

12.2 Performance Management

12.3 Oversee and Improve Engagement Performance

13.2 Engagement Risk Assessment

13.3 Engagement Objectives and Scope

13.5 Engagement Resources

13.6 Work Program

14.1 Gathering Information for Analysis and Evaluation

14.2 Analyses and Potential Engagement Findings

14.6 Engagement Documentation

15.1 Final Engagement Communications

15.2 Confirming the Implementation of Recommendations or Action Plans

Global Guidance and Other IIA Resources

Practice Guide, “Developing a Risk-based Internal Audit Plan”

Practice Guide, “Internal Auditing and Fraud”

Practice Guide, “Unique Aspects of Internal Auditing in the Public Sector”

“Applying the Three Lines Model in the Public Sector”

“Conformance Readiness Assessment Tool”

“Internal Audit Capability Model (IA-CM)”

“Model Internal Audit Charter Tool for the Public Sector”

The Institute of Internal Auditors: *The IIA’s Three Lines Model: An Update of the Three Lines of Defense*



Appendix B. Glossary

Definitions are taken from the “Glossary” within The IIA’s publication, *Global Internal Audit Standards, 2024 Edition*. Other sources are footnoted.

accountability² – The quality or state of being accountable, especially: an obligation or willingness to accept responsibility or to account for one’s actions.

advisory services – Services through which internal auditors provide advice to an organization’s stakeholders without providing assurance or taking on management responsibilities. The nature and scope of advisory services are subject to agreement with relevant stakeholders. Examples include advising on the design and implementation of new policies, processes, systems, and products; providing forensic services; providing training; and facilitating discussions about risks and controls. “Advisory services” are also known as “consulting services.”

assurance – Statement intended to increase the level of stakeholders’ confidence about an organization’s governance, risk management, and control processes over an issue, condition, subject matter, or activity under review when compared to established criteria.

assurance services – Services through which internal auditors perform objective assessments to provide assurance. Examples of assurance services include compliance, financial, operational or performance, and technology engagements. Internal auditors may provide limited or reasonable assurance, depending on the nature, timing, and extent of procedures performed.

board – Highest-level body charged with governance, such as:

- A board of directors.
- An audit committee.
- A board of governors or trustees.
- A group of elected officials or political appointees.
- Another body that has authority over the relevant governance functions.

In an organization that has more than one governing body, “board” refers to the body or bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities.

2. Merriam-Webster, accessed May 31, 2024.



If none of the above exists, “board” should be read as referring to the group or person that acts as the organization’s highest-level governing body. Examples include the head of the organization and senior management.

chief audit executive – The leadership role responsible for effectively managing all aspects of the internal audit function and ensuring the quality performance of internal audit services in accordance with Global Internal Audit Standards. The specific job title and/or responsibilities may vary across organizations.

competency – Knowledge, skills, and abilities.

compliance – Adherence to laws, regulations, contracts, policies, procedures, and other requirements.

conflict of interest – A situation, activity, or relationship that may influence, or appear to influence, an internal auditor’s ability to make objective professional judgments or perform responsibilities objectively.

control – Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.

control processes – The policies, procedures, and activities designed and operated to manage risks to be within the level of an organization’s risk tolerance.

criteria – In an engagement, specifications of the desired state of the activity under review (also called “evaluation criteria”).

engagement – A specific internal audit assignment or project that includes multiple tasks or activities designed to accomplish a specific set of related objectives. See also “assurance services” and “advisory services.”

engagement conclusion – Internal auditors’ professional judgment about engagement findings when viewed collectively. The engagement conclusion should indicate satisfactory or unsatisfactory performance.

engagement objectives – Statements that articulate the purpose of an engagement and describe the specific goals to be achieved.

engagement planning – Process during which internal auditors gather information, assess and prioritize risks relevant to the activity under review, establish engagement objectives and scope, identify evaluation criteria, and create a work program for an engagement.

engagement results – The findings and conclusion of an engagement. Engagement results may also include recommendations and/or agreed upon action plans.

engagement work program – A document that identifies the tasks to be performed to achieve the engagement objectives, the methodology and tools necessary, and the internal auditors assigned to perform the tasks. The work program is based on information obtained during engagement planning.



finding – In an engagement, the determination that a gap exists between the evaluation criteria and the condition of the activity under review. Other terms, such as “observations,” may be used.

fraud – Any intentional act characterized by deceit, concealment, dishonesty, misappropriation of assets or information, forgery, or violation of trust perpetrated by individuals or organizations to secure unjust or illegal personal or business advantage.

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

impact – The result or effect of an event. The event may have a positive or negative effect on the organization’s strategy or business objectives.

independence – The freedom from conditions that may impair the ability of the internal audit function to carry out internal audit responsibilities in an unbiased manner.

integrity – Behavior characterized by adherence to moral and ethical principles, including demonstrating honesty and the professional courage to act based on relevant facts.

internal audit charter – A formal document that includes the internal audit function’s mandate, organizational position, reporting relationships, scope of work, types of services, and other specifications.

internal audit function – A professional individual or group responsible for providing an organization with assurance and advisory services.

internal audit mandate – The internal audit function’s authority, role, and responsibilities, which may be granted by the board and/or laws and regulations.

internal audit manual – The chief audit executive’s documentation of the methodologies (policies, processes, and procedures) to guide and direct internal auditors within the internal audit function.

internal audit plan – A document, developed by the chief audit executive, that identifies the engagements and other internal audit services anticipated to be provided during a given period. The plan should be risk-based and dynamic, reflecting timely adjustments in response to changes affecting the organization.

internal auditing – An independent, objective assurance and advisory service designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

likelihood – The probability that a given event will occur.

may – As used in the Considerations for Implementation of the Global Internal Audit Standards, the word “may” describes optional practices to implement the Requirements.

methodologies – Policies, processes, and procedures established by the chief audit executive to guide the internal audit function and enhance its effectiveness.



must – The Global Internal Audit Standards use the word “must” to specify an unconditional requirement.

objectivity – An unbiased mental attitude that allows internal auditors to make professional judgments, fulfill their responsibilities, and achieve the Purpose of Internal Auditing without compromise.

outsourcing – Contracting with an independent external provider of internal audit services. Fully outsourcing a function refers to contracting the entire internal audit function, and partially outsourcing (also called “cosourcing”) indicates that only a portion of the services are outsourced.

periodically – At regularly occurring intervals, depending on the needs of the organization, including the internal audit function.

public interest³ – Encompasses the social and economic interests and overall well-being of a society and the organizations operating within that society (including those of employers, employees, investors, the business and financial community, clients, customers, regulators, and government). Questions of public interest are context specific and should weigh ethics, fairness, cultural norms and values, and potential disparate impacts on certain individuals and subgroups of society).

public sector – Governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver programs, goods, or services to the public.

quality assurance and improvement program – A program established by the chief audit executive to evaluate and ensure the internal audit function conforms with the Global Internal Audit Standards, achieves performance objectives, and pursues continuous improvement. The program includes internal and external assessments.

results of internal audit services – Outcomes, such as engagement conclusions, themes (such as effective practices or root causes), and conclusions at the level of the business unit or organization.

risk – The positive or negative effect of uncertainty on objectives.

risk appetite – The types and amount of risk that an organization is willing to accept in the pursuit of its strategies and objectives.

risk assessment – The identification and analysis of risks relevant to the achievement of an organization’s objectives. The significance of risks is typically assessed in terms of impact and likelihood.

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

risk tolerance – Acceptable variations in performance related to achieving objectives.

3. Global Internal Audit Standards, 2024, Fundamentals.



senior management – The highest level of executive management of an organization that is ultimately accountable to the board for executing the organization’s strategic decisions, typically a group of persons that includes the chief executive officer or head of the organization.

should – As used in the Considerations for Implementation of the Global Internal Audit Standards, the word “should” describes practices that are preferred but not required.

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

stakeholder – A party with a direct or indirect interest in an organization’s activities and outcomes. Stakeholders may include the board, management, employees, customers, vendors, shareholders, regulatory agencies, financial institutions, external auditors, the public, and others.

workpapers – Documentation of the internal audit work done when planning and performing engagements. The documentation provides the supporting information for engagement findings and conclusions.



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