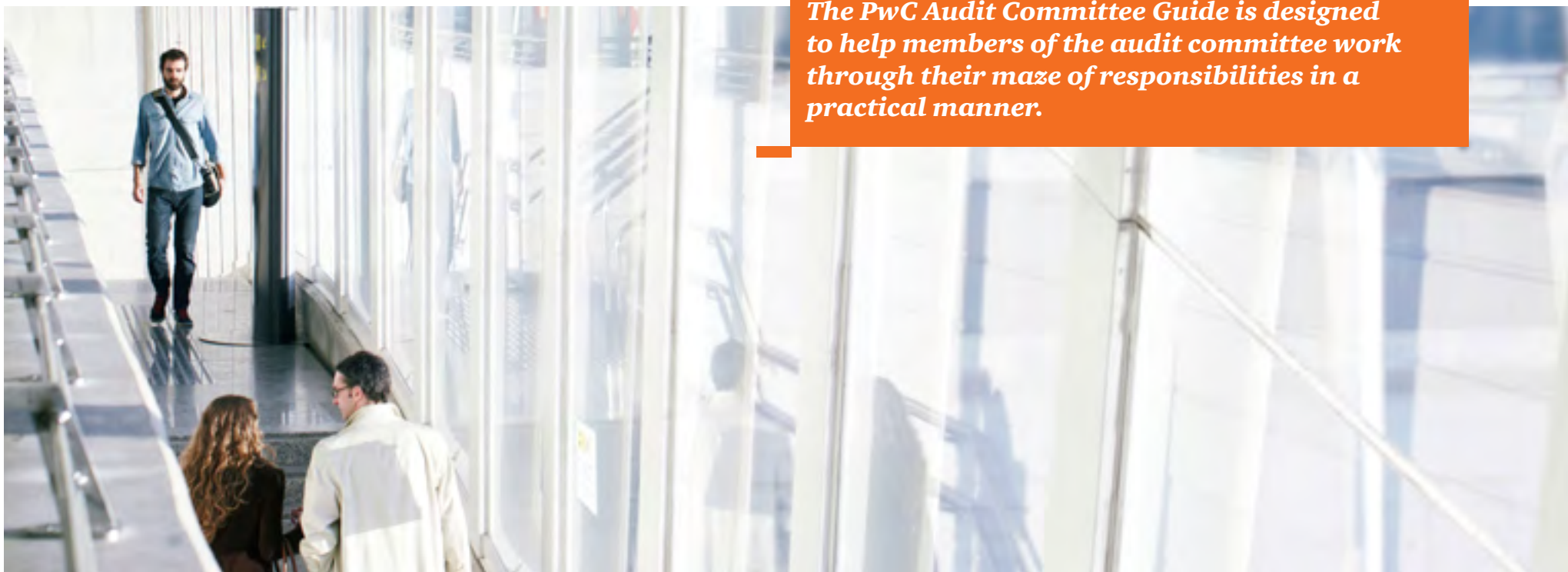




Understanding internal audit

Audit committees have an essential role to play in ensuring the integrity and transparency of corporate reporting.

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The PwC Audit Committee Guide is designed to help members of the audit committee work through their maze of responsibilities in a practical manner.

The guide consists of:

- Introduction
- Setting up the audit committee
- Financial reporting: Reviewing financial information
- Risk management & internal control
- Working with the external auditor
- Understanding internal audit
- Maintaining & measuring effectiveness
- Communicating & reporting
- Ethical, regulatory & compliance matters
- Compliance frameworks
- The audit committee’s role in ‘fit and proper’ requirements for financial services entities
- Materiality in audits

We hope you will find this guide of value to your important role. If you would like to provide any feedback, or if you need more information, call your usual PwC contact.



Understanding internal audit

A strong, positive relationship with internal audit can give audit committee members an insight into control elements relevant to their work.

Companies and boards are responsible for the risks a business faces and the controls it has adopted to mitigate those risks. An internal audit function is intended to provide assurance to the board and management about the way the company is managing risks and controls as they relate to the organisation's business objectives.

The Institute of Internal Auditors – Australia (IIA) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”



1. Internal audit and the audit committee

The internal audit function can be an important source of information and advice for the audit committee. It is therefore imperative that there be a strong relationship between them.

Many audit committees report they find value in ensuring there is an open line of communication between the committee and the internal audit function. Some companies require the head of internal audit to report directly to the audit committee, rather than to management. Others keep the management line of reporting, but require the head of internal audit to meet with the audit committee (or chairman) regularly, including, at times, without management present.

The audit committee chairman and the head of internal audit should have regular contact outside audit committee meetings. This ensures that the head of internal audit can talk directly to a non-executive about operational or management issues that may arise. The audit committee should also encourage a positive relationship between internal audit and the external auditor, to ensure a productive working relationship between them.

If a company does not have an internal audit function, it is a responsibility of the audit committee to consider, in conjunction with the board or senior management, whether such a function would benefit the company.



2. Charter and authority

An audit committee is only as good as its members. As existing independent non-executive directors, all audit committee members will have, or be able to attain, the qualities and skills required to add value to the role. These include the qualities set out under Qualifications later in this section.

To be effective, an internal audit department must have the support of management and the board. This means not only that management and the board must provide the right resources, time and authority, but also that internal audit must have a comprehensive mandate in the form of a charter. The charter and authority, in turn, can provide the audit committee with a clear understanding of internal audit activities, functions and organisational structure.

An internal audit charter sets out the roles, responsibilities, authority and reporting requirements of the internal audit function. The charter will vary from company to company. An example of an internal audit charter is provided in Appendix A to this section.

The role of internal audit will depend on the individual company's requirements. The audit committee needs to consider whether the charter sets out the internal audit responsibilities clearly and whether these meet the company's needs. When evaluating the charter, the audit committee should consider the following:

- Does the charter clearly articulate the scope of work internal audit will perform and as agreed by the audit committee?
- Does internal audit have appropriate authority to undertake its responsibilities?
- Does the charter outline the reporting lines of the internal audit department? If so, are these sufficient to meet the needs of audit committee members?
- Does the charter require the head of internal audit to meet regularly with the audit committee without management present, or does it provide direct access to the audit committee chairman?
- What relationship will internal audit have with other assurance providers?
- When was the charter last reviewed and updated? Has it kept pace with the company's activities and changes to the compliance/regulatory environment?
- Does the charter outline the standards under which internal audit will operate? For example, the IIA Standards for the Professional Practice of Internal Auditing (IIA Professional Standards).



3. Resourcing

The audit committee can play an important role in focusing attention on the adequacy of the internal audit department's resources.

Skills

The audit committee should consider the internal audit department's size and skill set in the context of the business environment in which the company operates. For example, important attributes could include computer and systems experience, treasury experience and foreign language skills.

Also important are the personal qualities of the internal audit staff and how they interact with the company.

The need for good relationships between the internal auditor and the management and staff of the company has to be balanced with the need to remain impartial and maintain a professional scepticism in the internal auditor's role as business partner. The audit committee will require the internal audit function to 'call it as they see it', and to make the committee aware of key control breakdowns and actions to correct them. As this may involve explicit or implicit criticism of management, internal audit staff will need the right mix of technical and 'soft skills' training to enhance their effectiveness.

Following the advent of Sarbanes-Oxley in the USA¹⁹ and other corporate governance requirements, there is a high demand for people who are skilled in assessing risks and controls, and this may place pressure on the ability of organisations to hire suitable internal audit staff who have these skill sets.



19. Public Company Accounting Reform and Investor Protection Act 2002.

3. Resourcing

Head of internal audit

These constraints and pressures place additional emphasis on the quality of the head of internal audit. This person will need to be a strong individual, able to balance demands and challenges and to manage staff effectively. Given this profile, the audit committee should take responsibility for reviewing or approving the appointment, replacement or dismissal of the head of internal audit.

Outsourcing

Due to the complexities of running an internal audit function, some companies choose to outsource the activity. Outsourcing the internal audit function is a popular option because it:

- provides access to a wider range of skills than small, traditional departments can support
- provides a solution to the difficulties faced by companies of all sizes in retaining specialist auditors
- provides a window to better practice methods that smaller departments cannot access
- can increase internal audit’s independence from operational management.

External experts

Where necessary, the internal audit function will need to employ other skills; for example occupational health and safety and IT expertise. In these instances the internal audit department might engage experts, either from within or outside the organisation. Where external experts are required regularly, large internal audit departments are increasingly choosing to develop strategic alliances with external providers. These alliances give the department access to experts who understand their industry and organisation, as well as access to best practice internal audit knowledge and specialist skills from one provider.

If this is considered a suitable approach, the internal audit function will need to have the authority to implement it. Usually the audit committee will approve – or, at a minimum, review – such alliances.

Assessing the resourcing of internal audit

Typical questions to ask concerning resourcing include those set out below.

Key questions	Who to ask	Response to look for
Do you have sufficient resources to complete the internal audit plan?	Head of internal audit	Yes. If the answer is no, determine what plans are in place to achieve and maintain appropriate resourcing.
How many vacancies exist? (Also consider how long any vacancies have remained unfilled.)		
What is the mix of resources in internal audit? (ie in-house vs external staff/experts)	Head of internal audit	Appropriate mix to deliver best result. The mix of resources is clearly linked to the charter and responsibilities and has been properly costed.
What training program does the internal audit department have?	Head of internal audit	Necessary training to maintain qualifications and ‘soft skills’ and to keep up to date on emerging trends.
Is there a succession plan for the head of internal audit?	Head of internal audit, CEO and CFO	Yes – and there is an appropriate program in place to prepare potential future leaders.

4. Internal audit's scope of work

The scope of work of an internal audit department varies significantly depending on its mandate, the industry within which it operates, the skills of the staff and the existence of other assurance providers in the organisation.

The scope of work of an internal audit department varies significantly depending on its mandate, the industry within which it operates, the skills of the staff and the existence of other assurance providers in the organisation. The scope of work may include:

- financial controls assurance
- operational auditing (eg reviews of areas other than finance such as logistics or production planning)
- monitoring of risk management implementation
- IT controls assurance
- project management assurance
- special investigative and ad hoc reviews (eg investigations of suspected fraud).

Assessing internal audit's scope of work

There are some general factors that are relevant to the work of an internal audit function. These can be used as pointers when assessing the scope of work.

1. Balanced relationship with management

Internal auditors should not allow management to inappropriately influence the scope of reviews and internal audit findings, and should challenge management 'bullies'. Ensuring that the scope of the audit is clearly defined and properly communicated to all concerned is a major step towards transparent outcomes.



4. Internal audit's scope of work

2. End-to-end audits

End-to-end auditing may be needed where a process crosses over business units, thereby splitting management responsibilities. Walk-throughs and flowcharts are important techniques for examining the entire process chain and ensuring that important controls do not 'fall between the cracks'. When performing end-to-end audits, the scope should include the facility for these techniques, as well as checks of both manual and automated controls.

3. Devil in the detail

With new regulations such as Sarbanes-Oxley in force, there is little room for budget-driven shortcuts. Businesses should be prepared for internal auditors to test internal controls in detail. Appropriate documentation and sampling standards should be consistently employed throughout the internal audit department.

4. Areas selected for attention

Internal auditors should not ignore remote or niche parts of the business because of their relative size. Areas where performance appears too good to be true or is outside expectations should be a particular focus of tests. An adequate risk assessment process should be undertaken to ensure that the internal audit plan is properly focused on the key risks affecting the organisation.

5. Fraud prevention and incident management strategies

Auditing fraud risks requires specialist skills and a tailored approach. Typical tools that should be used by internal auditors include data mining and analysis tools, and specially built computer-assisted audit tools (CAATs). These tools aid the accurate analysis and detection of unusual activity. Such tools can also create efficiencies as they can interrogate large amounts of data faster than manual testing methods.

Fraud and related incidents occur in most organisations and internal audit should be involved in managing such incidents. Internal audit should consider whether specialists are required to conduct or assist in the investigation. Such specialist assistance can include interviewers, forensic data specialists, lawyers and other experts.

Organisations should also have an incident management plan detailing the actions that need to be taken should a fraud incident occur. This plan should cover details such as legal and HR consultation, the engagement of specialists, communication protocols and reporting processes. When overseeing the scope of work of internal audit, the audit committee will need to bear these matters in mind. Typical questions that will help assess these matters include those set out in the following table.

Key questions	Who to ask	Response to look for
What percentage of the audit plan is dedicated to financial assurance reviews, operational reviews etc? How does this compare to previous years?	Head of internal audit	An adequate explanation concerning the key focus areas for internal audit, including a comparison to previous years and consideration of niche or high-performing areas.
How did you develop the plan and prioritise the audits? What involvement did management have?	Head of internal audit, CEO and CFO	A clear explanation of the risk assessment process used to develop the plan, as well as evidence of adequate, but not domineering, involvement of management.
How have you integrated the organisation's risk management framework and key risks into the internal audit plan?	Head of internal audit, CEO and CFO	A clear explanation that the risks identified in implementing the risk management framework – including direct links to the organisation's key risks and risk management policy – have been incorporated into the planning process.

4. Internal audit's scope of work

<i>Key questions</i>	<i>Who to ask</i>	<i>Response to look for</i>
<p>Which risks identified as part of implementing the risk management framework are not addressed by internal audit?</p> <p>Are they addressed by other assurance providers? If not, why not?</p>	Head of internal audit, CEO	Identification of those risks not addressed by any assurance group, and the reasons why not.
<p>What are the top five reviews of your assessment process that did not make it into this year's plan?</p>	Head of internal audit	A discussion of those reviews that 'just' missed out on this year's plan. There may be justification for conducting these reviews and re-prioritising.
<p>Have you been involved in any ad hoc or special investigative reviews since we last met?</p> <p>If so, what impact will this have on the internal audit plan?</p>	Head of internal audit	A discussion about the reasons for, who requested, and the impact on the internal audit plan of, any ad hoc assignments. The process for approving these assignments should be discussed. Generally the audit committee should be at least aware of these in advance.
<p>Were any frauds identified during the period under review?</p> <p>If so, was the internal audit function promptly advised and involved in any investigation?</p>	Head of internal audit	Evidence that there is a system for identifying frauds (see the Ethical, regulatory & compliance matters section), that internal audit activity was within a reasonable time of the fraud being reported, and that all reports were fully investigated, regardless of size.



5. Responses to internal audit recommendations

Many audit committees follow up on how the internal audit function's recommendations have been dealt with by management. This provides them with an insight into the role and effectiveness of the internal audit function and also some understanding of management's attitude to internal audit.

Any recommendations or agreed actions not implemented by management should be reported to the audit committee, especially where there is a risk of exposure. Reasons for any actions being resolved and revised resolution dates should also be reported. If the reasons provided are unacceptable, requests for further information from management should be made.

Following are some sample questions to ask the internal audit head regarding previously reported internal audit findings.

<i>Key questions</i>	<i>Response to look for</i>
In the reports you are presenting at this audit committee meeting, has management agreed to all findings reported?	Yes. If the answer is no, appropriate reasons are required.
Are management's proposed resolution dates appropriate to address the risks in a timely manner?	Yes. Timeframes to action findings should be commensurate with the risk/exposure of the finding.
How long has it taken for you to finalise each of the reports presented?	An explanation for any undue delays. The time it takes to finalise a report is often a sign of pushback from management.
In your professional opinion, are management's reasons for not actioning findings by their resolution date appropriate?	Yes. If the answer is no, the findings in question should be discussed and a revised deadline for action/follow-up agreed.
What process do you undertake to confirm that agreed actions have been implemented?	Internal audit cannot physically verify all previous findings. At a minimum, the next visit/audit scope should include the follow-up of previous findings.

Tip:

Audit committees commonly ask the external auditor to inform them of major resolved and unresolved issues encountered during the audit and of any restrictions senior management imposes on the scope of the audit.

6. Internal audit effectiveness

To ensure the internal audit department maintains high performance, it is important that the audit committee regularly assesses the department's effectiveness. The IIA Professional Standards require that an independent or external assessment of the internal audit function be performed at least once every five years, and an internal assessment once a year.

In the meantime, the audit committee can contribute to maintaining the quality of performance by determining whether the internal audit function:

- is satisfying the values of the key stakeholders (ie audit committee, executive management, operational management)
- has maintained its objectivity
- is adequately trained (the company should provide a supportive atmosphere where internal auditors can receive continuing professional education)
- keeps up with current issues and technology; for example, where a company has significant computerised operations or is heavily dependent on electronic commerce, internal auditors should have the necessary skills to understand the internal control implications
- has appropriate qualifications in both professional training and practical experience (the company should encourage internal auditors to become members of professional associations and to seek professional certification where appropriate)
- is appropriately funded within the organisation.



6. Internal audit effectiveness

Some questions to ask include the following.

<i>Key questions</i>	<i>Who to ask</i>	<i>Response to look for</i>
Has internal audit ever undergone an external assessment? If yes, how long ago, and how are we tracking actions to address findings?	Head of internal audit	The timing and results/actions from the last external assessment (at least every five years).
Does internal audit perform annual self-assessments? If so, how are actions tracked and reported?	Head of internal audit	The timing and results/actions from the last self-assessment (yearly is best practice).
Is the internal audit charter and/or mandate appropriate? Has it kept pace with the company's activities and information and control systems?	Head of internal audit, CEO and CFO	Yes, the internal audit function has an appropriate charter that is followed and is sufficiently flexible to allow it to address changing risks.
What standards and guidance does the internal audit function follow?	Head of internal audit	Institute of Internal Auditors – Australia. Other relevant standards issued by relevant authorities.
Does internal audit investigate areas significant to the key operational and financial risks faced by the business?	CEO and CFO	Yes. If not, why not? Is the function not sufficiently risk focused?

<i>Key questions</i>	<i>Who to ask</i>	<i>Response to look for</i>
Does the company act on recommendations from internal audit and monitor the changes made?	Head of internal audit	Yes. This should be supported by reporting to the audit committee on clearance of previously reported findings.
Do the internal auditors have an effective working relationship with the external auditor and with company personnel involved in risk management processes?	Head of internal audit, external auditor and chief risk officer	Yes. Evidence would be a link from the internal audit plan to the risk profile, and external audit being able to rely on internal audit's work.

Appendix B is an example of a questionnaire that can be used when evaluating the effectiveness of the internal audit function. It may be useful to have the head of internal audit and CEO/CFO fill this out separately and compare the results.

Benchmarking

Another approach to evaluation is to commission a benchmarking exercise. This involves an independent review of the internal audit department's activities, which is used as the basis for benchmarking those activities against those of comparable internal audit departments. Such reviews can improve the effectiveness of the internal audit department by identifying actions to ensure future needs are met.

Benchmarking exercises should be both quantitative and qualitative. As no two organisations are the same, recommendations should be tailored to the needs of the organisation.

6. Internal audit effectiveness

General questions for the head of internal audit

As a member of an audit committee, it is important that you understand fully the operation of your internal audit department, especially if you are relying on the department to provide you with assurance over the controls within the organisation. Questions to ask your internal audit head are set out in the table below.

Key questions	Response to look for
What co-operation do you receive from both corporate and operational management?	Good co-operation at all times. However, differences of opinion will always surface. These should be explained so the committee can assess the stance of each party and how they work together. Serious differences of opinion need to be resolved.
Have you experienced any circumstances where management was less than co-operative?	Examples will help to clarify the issues and the working relationship.
Have any of your requests for information been denied?	No. Internal audit should have the ability to review all information it requests. The charter should also reinforce this. If concerns are expressed, the audit committee should consider their impact and how they can be resolved.
In your opinion, where is our organisation exposed (be it financial, reputation, operational etc)?	A clear explanation demonstrating a good understanding of the risks, and providing comfort that these are being addressed through internal audit or some other assurance process (if appropriate).
Is addressing this exposure part of your internal audit plan?	

Key questions

Have you been inappropriately pressured to alter or re-prioritise findings from your work?

Response to look for

The only changes made to reports should be to ensure factual accuracy. Internal audit must ensure that all key risk exposures it detects during internal audits are reported to the audit committee.

If there are concerns about undue pressure, the committee will need to discuss with the head of internal audit from whom these pressures are coming and how the head of internal audit thinks they can be resolved.



Appendix A: Example of an internal audit charter

The internal audit function may cover a range of activities. This example illustrates one option only.

1 Purpose of the charter

- 1.1 The internal audit charter provides the functional and organisational framework within which internal audit operates. This document sets out the nature, role, status, authority and responsibility of internal audit.
- 1.2 This document should be read in conjunction with the audit committee charter.

2 Mission and objective of internal audit

- 2.1 Internal audit's mission is to provide independent, objective assurance to the audit committee on the state of risks and internal controls, providing management with recommendations to enhance controls.
- 2.2 Its secondary objective is to assist the chief executive officer (CEO) and senior management in the effective discharge of their responsibilities to the board in the areas of risk management and internal control, by providing independent appraisals of the adequacy and effectiveness of the risk management and internal control systems. In performing this role, internal audit may also provide assistance to the board in the discharge of its responsibilities.
- 2.3 The risk management and internal control systems encompass all policies, processes, practices and procedures established by management or the board, to provide reasonable assurance²⁰ that:
 - established corporate and business strategies and objectives are achieved
 - risk exposure is identified and adequately monitored and managed
 - resources are acquired economically, adequately protected and managed efficiently and effectively, throughout the course of business
 - significant financial, managerial and operating information is accurate, relevant, timely and reliable

- there is an adequate level of compliance with policies, standards, procedures, and applicable laws and regulations.

In addition, a review might highlight opportunities for improving management control, profitability and the identification of the company's risk profile. These findings will be communicated to the appropriate level of management through the normal reporting process.

3 Independence

- 3.1 Internal audit must be, and must be seen to be, independent of the activities and processes it appraises, to ensure it can perform its duties in an objective manner and can provide impartial advice to management and the board.
- 3.2 Audit staff have no line responsibility or authority over any of the activities or operations they review and (except in the rarest of circumstances as approved by the CEO and/or audit committee) are not authorised to:
 - perform any operational duties for the organisation except within internal audit
 - initiate or approve accounting transactions external to internal audit
 - direct the activities of any employee not employed by internal audit
 - engage in any other activity that could compromise their objectivity.
- 3.3 It is the responsibility of internal audit staff to communicate to the CEO and audit committee any perceived or potential conflicts that may compromise the objectivity or independence of internal audit.

4 Authority and accountability

- 4.1 The head of internal audit reports to the audit committee, which approves and advises the board on the appointment or dismissal of the head of internal audit.

²⁰ Any review or evaluation of a system of controls will never provide absolute assurance. Procedures that are adequate at the time of the review may become inadequate due to changed conditions or because the degree of compliance subsequently deteriorates. Accordingly, audit assessments can provide no assurance that breaches of a system of control or loss (whether through fraud, misappropriation or other failure) will not occur in the future.

Appendix A: Example of an internal audit charter

4.2 The head of internal audit is responsible for setting the overall direction of internal audit activities and reports, for administrative purposes, to the chief financial officer (CFO), CEO and/or company secretary. Internal audit reports to the audit committee regarding its responsibility to:

- seek confirmation of the proposed direction for internal audit (ie strategy)
- discuss and set objectives, scope, timing and resourcing of internal audit activity (ie annual plan)
- regularly advise of progress against plan and of any significant matters affecting the achievement of the annual work program
- report on key risk and internal control issues arising from internal audit activity.

4.3 Internal audit has direct access to the chairman of the audit committee and vice versa.

5 Access

5.1 The activities of internal audit are performed in relation to the parent company and its controlled entities. However, internal audit may also perform review work in relation to, or provide advice or information to, other related entities of the parent company. For example, joint venture arrangements may be subject to internal audit review.

5.2 Internal audit has full, free and unrestricted access to all records, documentation and physical property as may be required to fulfil its responsibilities. In particular, internal audit has access to the strategies, policies and priorities established by the board and senior management.

5.3 Internal audit also has the authority to seek any information it requires to fulfil its responsibilities from any officer, employee, consultant or contractor related to the company.

5.4 Company employees are expected to make themselves available and provide such information and explanations as are required for the conduct of internal audit work.

6 Coverage and reporting

6.1 Internal audit work will normally include, but is not restricted to, the following types of activity:

- Risk management and control monitoring, review and advisory services
- Risk-based business process reviews
- Ad hoc special project requests from management or the board/audit committee
- Special investigative reviews of frauds
- Financial, operational, procedural and compliance reviews (including Sarbanes-Oxley-related controls work if applicable)
- Information systems reviews.

6.2 Allocation of internal audit resources is based on an annual plan that takes into account:

- qualitative risk assessments of operations performed in consultation with management
- organisation strategy and business objectives
- any special tasks or projects requested by management or the audit committee/board, having regard to internal audit's primary responsibilities
- discussion with and input from management
- discussion with and input from the company's external auditor.

Appendix A: Example of an internal audit charter

- 6.3 Some examples of the factors considered in assessing risk exposure are:
- the adequacy of risk management practices within the company generally
 - the extent of compliance with, relevance of and financial effect of established policies, plans, procedures, laws and regulations
 - the extent to which resources and interests are accounted for and safeguarded from losses of all kinds, such as inefficient administration, poor value for money, or fraud
 - the suitability, reliability and integrity of financial and other management information and the means used to identify, measure, classify and report such information
 - the security and integrity of information systems, including systems under development, to ensure that controls over data processing and associated operational procedures offer adequate protection against error, fraud and loss
 - the follow-up actions taken by management to remedy previously identified significant risk and internal control exposures.
- 6.4 The plan is developed in conjunction with management and senior corporate executives. It is approved by the audit committee.
- 6.5 Internal audit management or the audit committee may make alterations to the annual plan. These changes require the approval of internal audit and the relevant executive manager, with notification to the chairman of the audit committee. Alterations to the plan will be tabled at the next available audit committee meeting.
- 6.6 Before a review is started, a terms of reference (TOR) will be agreed with internal audit and the relevant management team. This TOR is the scope document that forms the basis for a detailed work program.
- 6.7 An internal audit summary report will be issued for every review performed. There may be instances where a memorandum is issued by internal audit in place of a report (for example, reviews undertaken to address specific operational problems or issues, or minor matters for management attention). All reports issued will contain, as a minimum:
- the scope of the review
 - relevant administrative information (for example, title of the review, area under review, reviewer, date of the review)
 - a grading of the issues/findings raised (ie significant, important, minor)
 - a summary of the control issues/findings that arose during the review, together with appropriate recommendations and agreed management actions.
- 6.8 All reports will be discussed with management before the report is issued. These management discussions include discussions with:
- operational line managers (ie the internal audit project sponsor)
 - general and executive general managers
 - chief operating officer and/or CFO
 - managing director/CEO.
- 6.9 A summary report will be provided to the audit committee at each quarterly meeting. Complete details of all significant findings will be reported to the audit committee.
- 6.10 Internal audit will also maintain a register of issues/findings raised during audit reviews. The resolution of these will be monitored and, if required, reviews may be scheduled to follow up on the closure of issues.
- 6.11 The status of issues/findings previously reported to the audit committee will be reported at each audit committee meeting.

Appendix A: Example of an internal audit charter

7 Relationship with related assurance functions and the external auditor

- 7.1 To achieve cost-effective and efficient coverage, internal audit needs to liaise regularly with the external auditor, including:
- meeting to discuss and co-ordinate work, to minimise duplication of effort
 - providing copies of all reports arising from internal audit activity
 - providing access to all internal audit working papers and documentation that may assist the external auditor in carrying out its duties.
- 7.2 It is the sole responsibility of the external auditor to determine the extent to which it can rely on the reports, working papers and other documentation for its external audit or other purposes.
- 7.3 Internal audit will consider the work performed by the other assurance functions when planning for each review.

8 Operating standards

- 8.1 Internal audit staff are expected to promote the highest possible professional standards and service levels. In doing so, they will have regard to:
- internal audit procedures and standards
 - the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors – Australia
 - any other standards relevant to the maintenance of their professional standing.

- 8.2 In addition, internal audit staff are expected to:

- have a broad knowledge of operations
- remain informed about significant issues affecting or likely to affect those operations, and be responsive to changing organisational needs
- maintain their technical competence and build on their professional qualifications and skills through continuing education, which may include membership and participation in professional bodies; participation in research projects; and attendance at relevant conferences, seminars, external courses and in-house training programs
- exercise honesty, objectivity and discipline in performing their duties and responsibilities
- maintain a healthy level of ‘professional scepticism’
- maintain their independence
- be prudent in the use of information acquired in the course of their duties and, where necessary, preserve the confidentiality of such information
- maintain a constructive relationship with other staff encountered in the course of their duties.

9 Review of charter

- 9.1 The internal audit charter is reviewed at least annually by internal audit to ensure it remains consistent with its strategy and objectives. The outcomes of this annual review should be reported to the audit committee.
- 9.2 Any significant proposed changes are approved at the audit committee meeting.
- 9.3 Any review of this charter should take into consideration the impact of any service agreement with a third party for the provision of technical audit services.

Appendix B: Checklist for evaluating the effectiveness of internal audit

This short-form evaluation checklist is illustrative only. Each entity should tailor its evaluation to best meet its own criteria for internal audit effectiveness. The audit committee can complete this checklist based on discussions with internal audit and management, or it may require internal audit and management to complete the questionnaire separately, with the audit committee then assessing the results.

Internal audit performance criterion	Yes	No	Not sure	Comments
1. Is the internal audit department efficient and effective in performing its responsibilities? (Also refer to No 18).				
2. Given the internal audit plan and scope of work, are the resources appropriate?				
3. Is the internal audit department objective? How does it ensure this objectivity?				
4. Do internal audit staff have sufficient technical knowledge to perform their duties?				
5. Is there a formal training program in place for the department?				
6. Are IT auditors available to consider risks and related controls associated with operating systems?				
7. Was the staff turnover level for the current year in accordance with expectations?				

Internal audit performance criterion	Yes	No	Not sure	Comments
8. Was the internal audit plan delivered within the agreed budget, with a concentration on high risks and areas of sensitivity?				
9. Was the entire annual internal audit plan completed?				
10. Is the internal audit planning process appropriate?				
11. Were established and documented criteria used to prioritise the annual and long-term audit plans?				
12. Does planning include written audit plans and programs?				
13. Are reporting responsibilities (ie how often, to whom, format) formally documented?				
14. Are audit reports issued promptly?				
15. Is sufficient detail included in the audit reports?				

Appendix B: Checklist for evaluating the effectiveness of internal audit

Internal audit performance criterion	Yes	No	Not sure	Comments
16. Are recommendations/agreed actions completed in accordance with agreed timeframes?				
17. Does the scope of work include both operational and financial auditing?				
18. Does the head of internal audit consider efficiency and effectiveness improvements to the department?				
19. Is outsourcing of any internal audit services in place or planned?				
20. Does the internal audit team have a periodic peer review? If so, what were the results of the latest review?				
21. Has the charter been evaluated to determine whether it is still appropriate?				

