



The Institute of Internal Auditors

Australia

This resource was prepared after the 'Global Internal Audit Standards' were published in 2024

Internal Audit Manual

<version>

<date>

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Purpose

The purpose of this Internal Audit Manual (Manual) is to outline the approach to internal audit activities at <name of organisation>.

The Manual helps ensure conformity with:

- <legal requirements>.
- The 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors (IIA) including the 'Global Internal Audit Standards'
- Audit Committee Charter.
- Internal Audit Charter.

The Manual supports the Internal Audit Charter and provides information and guidance regarding the important role Internal Audit plays within <name of organisation>.

The Manual has been prepared to provide guidance to internal audit staff and co-sourced internal audit service providers about management and conduct of internal audit planning and services within <name of organisation>. It covers the approach to be adopted when conducting internal audit planning and services, including administrative arrangements and guidance for the steps to be taken when performing audits.

Internal audit personnel and service providers are expected to be familiar with the contents of this Manual and to adhere to its requirements.

Supporting Documents:	Audit Committee Charter Internal Audit Charter
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Definition of Internal Auditing

The 'Definition of Internal Auditing' is:

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

Source: 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors (IIA)

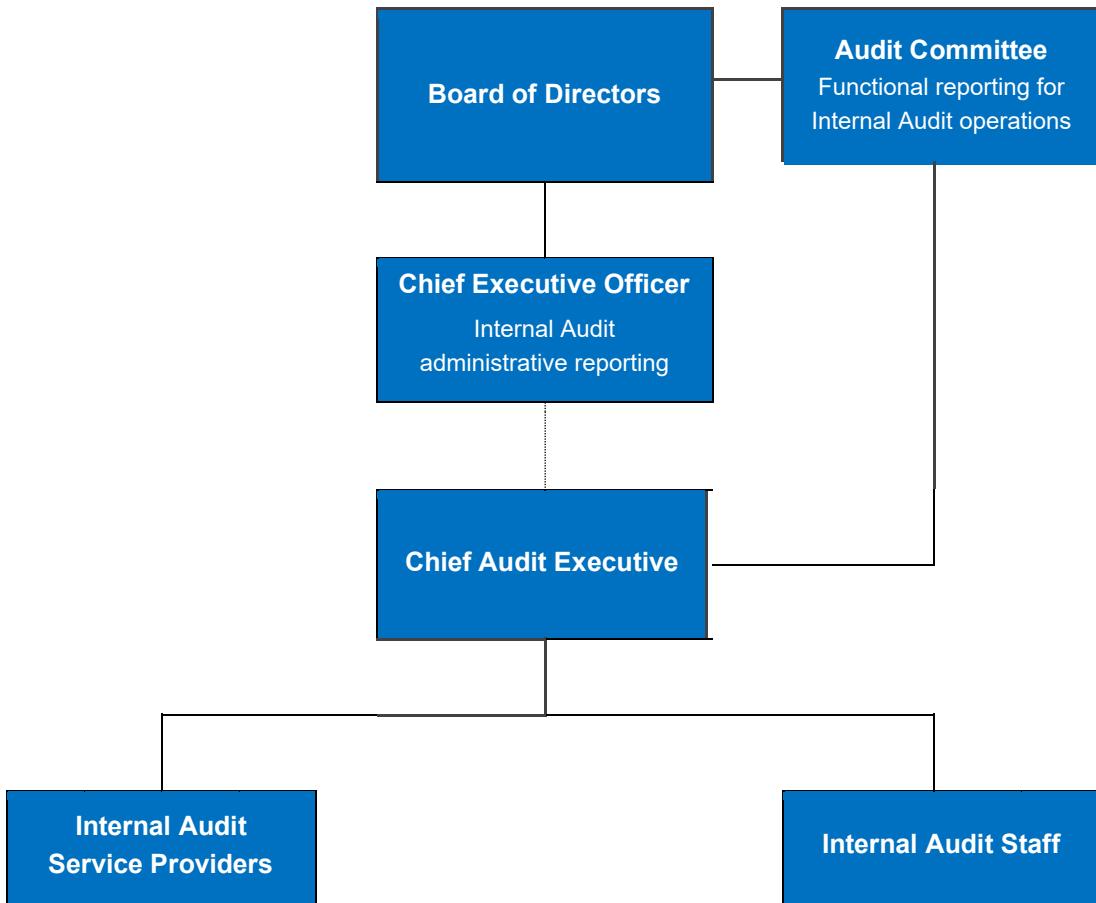
Objective

The objective of the Manual is to:

- Establish a framework for planning, performance and reporting of internal audit services that meet the 'Global Internal Audit Standards' and stakeholder expectations.
- Establish procedures and guidelines for internal audit staff and service providers to help ensure consistent delivery of internal audit services in conformance to the 'Global Internal Audit Standards'.

Organisation Structure

Internal Audit is positioned within <name of organisation> as follows:



Stakeholder Interaction

To be effective, Internal Audit requires extensive interaction with multiple groups of stakeholders.

Board of Directors

The Board of Directors is the governing authority and has an interest in effectiveness of governance and assurance arrangements including internal audit capability and effectiveness.

Audit Committee

Internal Audit will be functionally responsible to the Audit Committee through the Chair and will hold regular scheduled meetings with the Audit Committee without management present.

Chief Executive Officer

The Chief Executive Officer will be the Internal Audit administrative report so Internal Audit is independent of line management and can operate effectively without management interference.

Senior Management

Internal Audit should meet with senior management when conducting risk assessments, audit planning and fieldwork, communicating audit results and in an advisory capacity. Throughout these

interactions Internal Audit is independent of management and must be free from interference in determining the scope of internal audit work.

Other Internal Governance Committees

Internal Audit can sit on and participate with internal governance committees in a non-voting advisory capacity.

External Audit

Internal Audit co-ordinates its program of work with the external auditor to minimise duplication of overall audit effort.

External Experts

Internal Audit can engage external subject matter experts when required to support delivery of internal audit services of specialist topics.

Internal Audit Risk Assessment

On an annual basis Internal Audit will conduct a risk assessment to gain an understanding of the <name of organisation> risk environment. To the extent possible, Internal Audit will leverage risk assessment processes conducted by Risk Management.

In conducting risk assessments Internal Audit will utilise the processes outlined in the <name of organisation> Risk Management Framework.

Internal Audit Planning

Key Controls

Internal audit services will focus on providing assurance about design and effectiveness of key controls within <name of organisation>. Control objectives will consider:

Achievement of Objectives

Assess whether objectives are being achieved which will include assessment of strategic objectives and business unit objectives.

Decisions are Properly Authorised

Assess whether decisions are properly authorised which will include review of delegations and their application to the authorisation process.

Reliability and Integrity of Information

Review reliability and integrity of financial and operational information with the focus including tests of accuracy, reliability, completeness, timeliness and usefulness of information.

Efficiency, Effectiveness, Economy and Ethics

Assess efficiency, effectiveness, economy and ethics of operations to ascertain whether these attributes are being considered in design and implementation of policy, procedures, business operations and systems.

Safeguard Assets

Review whether assets are safeguarded by focusing on physical and logical security, and testing for risks such as fire, theft, improper use and illegal activities.

Compliance with Laws, Regulations, Policies and Contracts

Assess compliance with laws, regulations, policies and contracts which may cover a range of financial, human resource, procurement and other information that govern <name of organisation> activities.

Opportunity for Fraud and Corruption

Consider opportunity for fraud and corruption when internal audit activities are conducted.

Audit Actions

Follow-up previous audits to assess if remedial action has been effectively implemented

Business Improvement

Look for business improvements and better ways of doing things.

Other Assurance Providers

The external auditor and other assurance providers will be consulted when the Internal Audit Plan is developed to reduce possibility of duplication and to confirm appropriate timing.

Assurance Map

An assurance map is a high-level document that identifies the holistic risk coverage across the organisation by internal audit and a range of assurance providers. It helps identify gaps and duplication of assurance coverage. An Assurance Map will be prepared to guide development of the Internal Audit Plan.

Internal Audit Plan

The internal audit planning process involves assessing strategic objectives, risks and opportunities so the Internal Audit Plan can maximise internal audit coverage on key areas and also accommodate management requested internal audit services.

Internal Audit will prepare a risk-based Strategic Internal Audit Plan over a three-year horizon that is reviewed and approved by the Audit Committee. The first year of the plan becomes the current year Internal Audit Plan.

Internal Audit annually reviews and updates the three-year Strategic Internal Audit Plan to make sure it remains an effective tool to appraise the effectiveness of governance, risk management and control.

The plan requires Audit Committee endorsement before it can be amended.

Internal Audit Plan Principles

Value For Money

The plan will seek to maximise the amount of coverage from the internal audit budget.

High Level Scope

High level scope will be included outlining the purpose and objective of each internal audit service. This scope will be further refined with management input at the internal audit planning stage.

Internal Audit Calendar

The internal audit calendar identifies the estimated timeline and frequency of each audit over the three years of the plan. To the extent possible, internal audit services reviewing higher risk areas will be performed in the first half of the financial year or prior to the interim external audit.

Budget and Resourcing

Proposed budget (hours, dollars) and resourcing (in-house, co-sourced service provider) will be specified. This will be reconciled to the proposed internal audit services to ensure the plan is achievable.

Internal Audit Plan Review

When developing the Strategic Internal Audit Plan, the Chief Audit Executive will consult with the Audit Committee and relevant Senior Management.

On completion by the Chief Audit Executive, the draft Strategic Internal Audit Plan will be reviewed by the Audit Committee to ensure:

- Internal audit services are justified based on assessed risk.
- The plan is achievable based on available budget and required resources.
- Necessary competencies to conduct the internal audit services are available internally or externally.
- The plan has enough capacity to accommodate ad hoc management requested services not in the plan.

Internal Audit Plan Approval

On completion of the review process the Chief Audit Executive will submit the draft Strategic Internal Audit Plan to the Audit Committee for review and approval.

Supporting Documents:	Internal Audit Risk Assessment Assurance Map Internal Audit Plan
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Quality Assurance and Improvement Program

Internal Audit will maintain a Quality Assurance and Improvement Program containing:

- Internal assessments – ongoing.
- Internal audit assessments – periodic.
- An external assessment every five years.

Supporting Document:

Quality Assurance and Improvement Program

Performance Measures

Performance measures for Internal Audit will be the following:

Key Performance Indicator	Measure	Target	Frequency
1. Completion of Annual Internal Audit Plan			
1.1 Complete planned internal audit services as per the approved Annual Internal Audit Plan (subject to amendments approved by the Audit Committee)	% of planned internal audit services completed within the financial year to an acceptable quality level	100%	Annual 30 June
1.2 Complete the approved Annual Internal Audit Plan within the approved Internal Audit budget	% variance from approved budget for the financial year	0%	Annual 30 June
2. Implementation of Internal Audit Recommendations			
2.1 Internal audit recommendations accepted by management	% of recommendations accepted by management (subject to Internal Audit independence being maintained)	90%	Annual 30 June
2.2 Monitor implementation status of audit recommendations by management and report outcomes to the Audit Committee	Updated status obtained from management and reported to the Audit Committee	Status Reports Delivered	Quarter 30 September 31 December 31 March 30 June
3. Formal Survey Feedback			
3.1 Results of management feedback surveys following each internal audit service	% of survey responses rated good or better (averaged) in relation to value-add, usefulness of recommendations, and overall performance	90%	Annual 30 June
3.2 Result of annual feedback survey of Audit Committee members	% of survey responses rated good or better (averaged)	90%	Annual 30 June
4. Quality			
4.1 Provision of: <ul style="list-style-type: none"> (a) A statement on the Internal Audit quality assurance and improvement program (b) An opinion on <name of organisation> control framework (c) An up-to-date <name of organisation> Internal Audit Manual (d) An Internal Audit annual report 	Timely delivery of meaningful documents	Consistent with leading practice	Annual 30 June
4.2 Result of independent external quality assessment of the Internal Audit function in accordance with the 'Global Internal Audit Standards'	Positive independent report issued detailing result of the assessment	Consistent with leading practice	5-yearly <Year>

Security and Information Management

Security

Internal Audit staff and service provider personnel are to be mindful at all times of the need for security.

Service provider personnel will not be permitted to work at the <name of organisation> until they have been cleared in accordance with policy.

Electronic Documentation

<name of organisation> electronic data is not to be stored on portable storage devices or other media under any circumstances.

Service providers will ensure <name of organisation> documents and information in their possession are kept secure at all times, including protection of documents and information stored in service provider information systems.

Service provider personnel are not to change electronic documents or information where they are not the original author.

Physical Documentation

<name of organisation> corporate records are to be secured when not in immediate use.

All document drafts, notes and obsolete records no longer required are to be appropriately disposed of or shredded.

Internal Audit Records

There are two key components to internal audit records:

- Retention of final internal audit reports which are to be retained for seven years.
- Work papers which are to be retained for three years.

Service Providers

Induction

Internal Audit will provide an induction to be attended by service provider personnel.

Confidentiality and Conflict of Interest

Service providers are required to maintain the confidentiality of all information provided to them to perform internal audit services.

Service providers will sign a Deed of Confidentiality and Conflict of Interest Statement in the <name of organisation> format prior to commencing work on any internal audit services.

Where consulting services or additional work may be allocated to a service provider by Internal Audit or a business area, an independence declaration will be required from service providers for each instance. The final arbiter on whether a conflict of interest exists will be the Chief Audit Executive.

Supporting Documents:	Deed of Confidentiality Conflict of Interest Statement
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Insurance and Indemnity

Service providers will be required to maintain insurances for the term of the contract of:

- Public Liability Insurance of minimum <amount>.
- Professional Indemnity Insurance of minimum <amount>.
- Workers Compensation Insurance to the extent required by law.

Prior to commencement and each year thereafter, service providers will be required to provide insurance Certificates of Currency.

Supporting Documents:	Insurance Certificates of Currency
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Who Does What

The following table shows who is responsible for the various internal audit-related tasks.

Internal Audit Tasks		
Task	In-house	Service Provider
Audit Committee		
Input to preparation of Audit Committee agendas and papers.	✓	
Prepare the Internal Audit summary report for each Audit Committee meeting.	✓	
Submission of final internal audit reports to the Audit Committee.	✓	
Attendance at each Audit Committee meeting.	✓	✓
Internal Audit Strategy		
Develop an Internal Audit Strategy.	✓	✓
Internal Audit Manual		
Maintain an up-to-date Internal Audit Manual of procedures.		✓
Internal Audit Planning		
Provide input to the Annual Internal Audit Plan including ongoing monitoring of risks and their application to the Internal Audit Plan.	✓	
Prepare the 3-year Strategic Internal Audit Plan.		✓
Development of an Assurance Map.		✓
Co-ordination of audits across <name of organisation> to de-conflict schedules and reduce duplication – includes internal audit, external audit, etc.	✓	
Internal Audit Services		
Plan internal audit services, prepare terms of reference, and arrange meetings for internal audit services.		✓
Conduct internal audit services.		✓
Prepare draft internal audit reports.		✓
Review draft internal audit reports.	✓	
Obtain management responses to go into internal audit reports.		✓
Prepare final internal audit reports.		✓
Review final internal audit reports.	✓	
Issue final internal audit reports.	✓	

Internal Audit Tasks		
Task	In-house	Service Provider
Distribute Audit Sponsor feedback surveys after each internal audit service and collate feedback.	✓	
Induct new service provider internal auditors as required.	✓	
If difficulties arise, provide liaison between service providers and those being audited.	✓	
Monitor service providers to make sure the internal audit services are commenced and completed according to the schedule and timeline requirements.	✓	
Assess service provider performance after each internal audit service.	✓	
Service provider contract management and monitoring service provider performance measures.	✓	
Monitoring and Follow-up		
Maintain audit recommendation database.		✓
Monitor and follow-up internal audit and external audit recommendations, including reports to the Audit Committee on progress.		✓
Quality Assurance and Improvement Program		
Maintain a Quality Assurance and Improvement Program.		✓
Maintain quality over internal audit services.		✓
Report on Quality Assurance and Improvement Program results.		✓
Annual Reporting		
Complete annual service provider performance assessment.	✓	
Prepare Internal Audit Annual Report for the Audit Committee.		✓

Internal Audit Process

An internal audit service generally comprises:

1. Planning.
2. Fieldwork.
3. Reporting.
4. Monitoring and Follow-Up.

1. Planning

Getting Started

A clear understanding of the audit topic is needed before starting an audit. This does not mean the internal auditor needs to be an expert in the system or area to be reviewed. Rather, the internal auditor should be able to demonstrate an understanding of the topic to be audited including its objectives, key risks and issues, and be able to hold an informed discussion with management about the topic.

Research

Research is important for the internal auditor to become familiar with the topic of an internal audit service. This may include review of relevant laws / regulations / policies / contracts / standards / procedures / previous audit reports / other relevant reports / international literature such as models and best practice guides.

Kick-off Meeting

Before an internal audit service commences, the internal auditor will meet with management responsible for the area being audited to:

- Advise when the audit is scheduled to commence.
- Find out about the area to be audited.
- Ask what risks management sees in the area to be audited.
- Ask if there is anything management would like to see included in the audit.

This is a preliminary meeting. A formal Opening Meeting should be scheduled immediately before the audit commences.

The audit sponsor is the main person responsible for the topic to be audited, and who will receive the internal audit report when the audit is completed. It is useful to involve the audit sponsor in discussions before the Opening Meeting. In this way, the audit's Terms of Reference should better reflect the risks and issues associated with the audit topic.

Audit Objective

Every internal audit service must have an audit objective to clearly outline what is expected to be achieved from the audit. These include:

- Answer the question: "Why are we doing the audit?"
- Help to define questions to be answered from the audit.
- Enable someone reading the audit objectives to understand why the audit is being conducted.

A key focus for the internal auditor will be to look for better ways of doing things. This focuses on efficiency, effectiveness, economy and ethics of the topic being audited, rather than just compliance or financial correctness.

Efficiency – Producing the maximum output from inputs (using resources well).

Example – Where cost has been reduced over time.

Effectiveness – Achieving objectives as intended (using resources wisely).

Example – Where wastage has been reduced over time.

Economy – Minimising the cost of resources used (using resources economically but still maintaining quality).

Example – Where supplies of a specific quality are purchased at the best price.

Ethics – Assessing tone at the top and behaviours are ethical.

Example – Where organisation culture has improved over time.

One method of providing focus to an audit is to have an overall objective asking: 'What is the question to be answered by this audit?'

Internal Control Framework

A recognised internal control framework can be considered when developing audit objectives. One of these is COSO.

www.coso.org

Development of audit objectives in the COSO format can be a useful way of comprehensively covering the audit topic using the five COSO elements:

1. Control environment – The governing body demonstrates a commitment to an effective control structure.
2. Risk assessment – Risk assessment and risk management to determine the processes and tasks that need controls.
3. Control activities – Control activities are designed and implemented to mitigate risks.
4. Information and communication – Relevant information is communicated throughout the organisation to assure controls operate effectively and decision-making is informed.
5. Monitoring – Management monitors and reviews performance to ensure control activities are operating effectively and business objectives are achieved.

Use of a recognised internal control framework will provide structure when the internal auditor develops the audit objectives and help ensure that nothing is left out.

Audit Criteria

Audit criteria are the measure used to gauge whether an audit objective is achieved. Examples of audit criteria may be:

- Laws / regulations / policies / contracts.
- Standards.
- Policy and procedures.
- International literature for example standards and best practice guides.
- Technical publications.
- Administration instructions.
- Frameworks.
- Guidelines.
- Plans.
- Reports.
- Benchmarking.
- Expert advice.

Audit Scope

The audit scope defines the boundaries of the audit, what will be covered by the audit and how much audit work will be performed.

There may be good reasons why some parts of an audit may not be included in the scope of the audit for example:

- The audit topic may be too large to be done at one time.
- There may be insufficient resources available to do the full audit topic.
- The risks may not warrant the full audit topic being audited.
- Parts of the topic may have been audited previously.
- Management may be about to make significant changes in that area.

Terms of Reference

The Terms of Reference is a brief document that outlines information about the internal audit service including the audit objective, criteria and scope.

The audit sponsor should be given an opportunity to provide input to development of the Terms of Reference. This helps ensure appropriate coverage of the risks and issues associated with the audit topic.

Supporting Document:	Internal Audit Terms of Reference
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Audit Budget

Audits are allocated resources called audit budgets. It is important for the audit to be planned according to the resources available to perform the audit. It is usually measured in hours or days and may include expenses and other resources.

The audit budget should be completed at the same time the Terms of Reference are developed.

The Internal Audit Plan includes indicative resourcing for each internal audit service.

The audit budget should then break up the audit into key elements and critically examine each element to estimate specifically how much time will be required. This may be more or less than the estimate in the Internal Audit Plan.

Supporting Document:	Internal Audit Budget Form
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Audit Work Plan / RACM

The Audit Work Plan builds on the approved Terms of Reference and contains detailed information on how the step-by-step audit procedures will be performed. A sampling and testing strategy may also be included.

It is usual for the Audit Work Plan to contain a Risk Assessment of the topic being audited.

The Audit Work Plan is a 'living document' that is often updated throughout the audit.

Many internal auditors will use a Risk and Control Matrix (RACM) instead of an Audit Work Plan. It is not generally necessary to have both. A RACM is a document that can help an organisation identify, rank and implement control measures to mitigate risks. A RACM is a repository of risks that pose a threat to an organisation's operations, as well as the controls in place to mitigate those risks.

Supporting Document:	Audit Work Plan / Risk and Control Matrix (RACM)
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Audit Sampling and Testing

Sampling and testing are an integral component of the audit process.

An auditor will generally design a Sampling and Testing Plan for each audit to determine how the audit will achieve its objective by confirming or otherwise the validity of assertions that are key to the audit.

Not every audit will necessarily include sampling and testing – some audit topics will not include transaction or data sampling and testing procedures.

Audits will often be about whether controls are in place and analysing their design effectiveness and operating effectiveness.

Selecting a sample allows conclusions to be reached about an entire population on analysis of a portion (less than 100%) of the sample.

Audit sampling applies an audit procedure to fewer than 100% of the items being audited for the purpose of drawing an inference about a characteristic of the population – the population contains all items to be considered for testing. Each must have known and non-zero chance of selection to ensure the results can be projected to the population. The easiest form of sampling is where every

item in the population has the same chance of selection. For large populations containing thousands of items, population size will cause little impact on total sample size and is often irrelevant for audit sample planning.

Testing is taking a selected sample and assessing its individual components to determine whether they achieve the expected objective.

Judgemental (non-statistical / non-random) sampling is a subjective approach to determining sample size and selection. Based on other work, it may be possible to test the most significant and / or risky transactions and to emphasise the types of transactions subject to high control risk.

Statistical (random) sampling is an objective method of determining sample size and selecting the items to be examined. Unlike judgemental sampling, it provides a means of quantitatively assessing reliability or confidence level – the probability the sample will represent the population.

Many auditors choose to use judgemental sampling, but this is unlikely to provide as good a result as statistical sampling.

Regardless of the sampling approach used, professional auditor judgment must govern the quality of audit evidence. Even with statistical sampling, auditors must exercise judgement in determining appropriate statistical parameters to use for a valid audit conclusion. Nonetheless, a statistical approach to evidence gathering will normally provide a more objective basis for evaluating sample results than a non-statistical judgemental technique. This enhances the quality of audit reporting.

Attribute sampling is a statistical sampling method used to obtain information for estimating:

- Whether (Yes or No) an event (the attribute) has occurred.
- The total number of times (how many) an event occurred.
- The frequency (how often) an event occurred throughout the population.

Attribute sampling tests the effectiveness of controls because it can estimate a rate of occurrence of control deviations.

Attribute sampling represents the most common statistical application used by auditors to test effectiveness of controls and determine the rate of compliance with established criteria. Results of attribute sampling provide a statistical basis for the auditor to conclude whether the controls are functioning as intended, reflecting either control compliance or non-compliance – Yes or No.

In developing an attribute sampling plan, the auditor must first define:

- The audit test objective.
- Population involved.
- Sampling unit.
- Control items to be tested.

For example, if the auditor's objective is to determine the percentage of purchases lacking approval, the population will consist of all purchases within a given period. Each purchase becomes the sampling unit and purchase approval represents the control attribute to be tested.

The auditor must consider four statistical parameters to determine an appropriate sample size to select for the planned control test:

- Confidence level.
- Expected deviation rate.
- Tolerable rate.
- Population.

Although guided by assessed risk, enquiries of the audit sponsor (the person subject to audit) and prior audit experience, each parameter is ultimately based on professional auditor judgment.

The sample's **confidence level** refers to the reliability the auditor places on the sample results. Confidence levels of 90% to 99% are common. A 95% confidence level means the auditor assumes the risk that 5 out of 100 samples will not reflect the true values in the population.

The auditor's assessment of the control environment contributes to the level of risk the auditor is willing to assume. At a 95% confidence level, 5% reflects the auditor's risk of 'assessing control risk too low'.

The **expected deviation rate** represents the auditor's best estimate of the actual failure rate of a control in a population. The rate is usually based on audit sponsor enquiries, changes in personnel, process observations, prior year test results, or even the results of a preliminary sample.

The **tolerable rate** defines the maximum rate of non-compliance the auditor will 'tolerate' and still rely on the prescribed control. Many auditors will co-ordinate with their audit sponsor before establishing a tolerable rate. Audit sponsor control objectives help determine the nature and frequency of deviations that can occur and still allow reliance on the control.

The **population** contains all items to be considered for testing. Each must have a known and non-zero chance of selection to ensure the final sample result can be projected across the population. For large populations containing thousands of items, population size will cause little impact on total sample size and is often irrelevant for audit sample planning.

Data analytic techniques should be considered for every internal audit engagement where the data population warrants it. While not every internal audit engagement will require the use of data analytic techniques, the 'Global Internal Audit Standards' issued by the Institute of Internal Auditors indicate that due professional care requires the use of such techniques wherever appropriate.

The following table is often used to validate the auditor's assessment of controls and a random sample is selected according to the number of items in the population. It is a rule-of-thumb test that is always used in conjunction with other information.

If the population has this many members	choose a sample of this size
1	1
4	2
12–50	4
50–300	10% (ie 5 to 30)
More than 300	30

Compliance testing is an approach to determine whether prescribed controls actually exist and are being complied with in practice. In systems-based audit methodology, an audit attempts to establish how a system is operating by using a model of the way it operates and then confirming that model by testing transactions for adherence to the model. This is called compliance testing.

Substantive testing is an approach for determining whether data includes a material amount of error usually by sampling selected transactions, accounts or activities. Usually this is testing of dollar amounts, but any value can be tested. Testing which determines whether data includes a material amount of dollar-errors is termed substantive testing. External auditors are major users of substantive testing.

Supporting Document:	Sampling and Testing Plan Data Analytics Checklist
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Opening Meeting

When an audit commences, there should be an opening meeting between the internal auditor and the audit sponsor responsible for the area to be audited.

2. Fieldwork

Audit Fieldwork

When the audit commences, the internal auditor will use the step-by-step Audit Work Plan / RACM and update it throughout the audit as necessary.

Audit Evidence

The audit will gather evidence to support its conclusions which may be:

- Physical.
- Testimonial.
- Documentary – from inside the organisation.
- Documentary – from outside the organisation.
- Photographic.
- Analytical.

Audit evidence will be documented in the internal auditor's work papers.

Work Papers

Work papers are prepared by the internal auditor to document the work performed to:

- Aid in the planning, performance, and review of audits.
- Provide the principal support for audit results.
- Document whether audit objectives were achieved.
- Support the accuracy and completeness of the audit work performed.
- Provide a basis for the quality of the audit to be assessed.
- Contribute to continuous improvement.

- Provide evidence of the internal auditor's basis for conclusions about achievement of the overall objective.
- Provide evidence the audit was planned and performed in accordance with the 'Global Internal Audit Standards'.
- Provide a sufficient and appropriate record to support the internal audit report.
- Facilitate reviews by third parties such as the external auditor.

Audit Supervision

Supervision begins with planning and continues throughout the audit process through to reporting. Audits should be properly supervised to ensure:

- Audit objectives are achieved.
- Quality is assured.
- Staff are professionally developed.

Supervision includes:

- Ensuring the internal auditor has the necessary knowledge, skills and other competencies to perform the audit.
- Providing appropriate instructions during audit planning and endorsing the Terms of Reference and the Audit Work Plan.
- Determining work papers adequately support the audit observations and recommendations.
- Ensuring the internal audit report is accurate, objective, clear, concise, constructive and timely.
- Ensuring the objectives of the audit have been met.
- Providing opportunities for developing internal auditor knowledge, skills and other competencies.

Appropriate evidence of supervision will be documented and retained. The extent of supervision will depend on the proficiency and experience of the internal auditor and complexity of the audit.

Supporting Document:	Quality Assurance Form
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Audit Resource Summary

At completion of each audit an Audit Resource Summary is completed to reconcile the expended hours and cost of the audit to the estimated hours and cost. Over time this process will provide information on how long it takes to perform the phases of audits.

Supporting Document:	Audit Resource Summary
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Interim Meetings

In cases where an audit may take a number of weeks or months to complete, it can be useful for the internal auditor to meet periodically with the audit sponsor to keep them up-to-date with progress of the audit.

This is also an opportunity for the internal auditor to ask further questions and to clarify issues. Where an important issue has been discovered by the audit, this can be discussed with the audit sponsor and an action plan formulated to fix the problem before the audit is completed.

A meeting with the audit sponsor before the closing meeting can also be an opportunity to clarify issues before the draft internal audit report is issued to the audit sponsor.

Validation Sessions

Finalisation of an audit can take a lengthy time, especially getting the internal audit report agreed and obtaining management responses and action plans from the audit sponsor.

At completion of audit fieldwork and prior to issue of the draft internal audit report, a Validation Session in a workshop format can be considered to improve the audit report quality and shorten the tail-end of the audit process.

This is generally a structured process held with an audit sponsor at conclusion of an audit before the Closing Meeting.

It involves the internal auditor, audit sponsor and other key stakeholders, and can be a useful way to:

- Validate the audit outcome, findings and audit opinion.
- Test the veracity of audit conclusions and examine if root cause analysis has been used in the formulation of audit recommendations.
- Clear up any 'errors of fact'.
- Enable the internal auditor to demonstrate their command of the audit topic.
- Obtain management responses and action plans from the audit sponsor to complete the audit report and close-out in a timely way.
- Transfer knowledge about the status of processes and management.
- Transfer knowledge about audit processes and lessons learned during audits.

A workshop approach can also be a useful tool to finalise an audit and get agreement where there are multiple business areas or end-to-end processes involved.

Closing Meeting

At the end of the audit, the internal auditor should meet with the audit sponsor to discuss the results of the audit.

The Closing Meeting is also an opportunity for the internal auditor to discuss with the audit sponsor the internal audit report and its recommendations, and to:

- Discuss and agree the audit observations and recommendations.
- Agree action plans for implementation the recommendations.
- Explain the process for issuing the internal audit report.
- Answer any questions from the audit sponsor.

3. Reporting

Internal Audit Report

The end result of an internal audit service is an internal audit report.

It is important for conclusions that require remediation to be critically analysed to find the fundamental cause of issues (cause), not the surface issues (effect). This provides value-adding recommendations for meaningful change.

Risk ratings used in internal audit reports are to be consistent with the organisation's approved Risk Management Framework.

Supporting Document:	Internal Audit Report Template
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Recommendation Risk Rating

Each audit recommendation needs to be risk rated to:

- Clearly show the severity of a risk identified by the audit.
- Focus management attention on higher risks that need prompt attention.
- Allow resources to be first applied to higher risks rather than lower risks.

Supporting Document:	Risk Management Framework
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Management Responses

Management responses are to be included in the final internal audit report specifying:

- Agreed, partially agreed or not agreed.
- If not, why not.
- Action to be taken – these do not need to include lengthy comments or explanations as clarity of the action to be taken and management commitment is usually all that is required. Where a technology solution is required, confirmation should be included from the chief information officer that this is on the ICT work program and is funded.
- Responsible person
- Timing.
- Interim control arrangements to be relied upon where there is a long lead time, such as waiting to close-out an improvement action through implementation of a technology solution.

Audit Feedback

It is considered good practice to ask the audit sponsor to complete an audit feedback form at completion of each internal audit service. This is an aid to monitoring the quality of internal audit services and is an important part of the internal audit quality control process.

Internal Audit will request the audit sponsor and a range of people from the business area audited to complete a feedback form for each internal audit service completed. This will usually be at the same time the final internal audit report is issued.

Supporting Document:	Audit Feedback Form
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4. Monitoring and Follow-up

Monitoring

Internal Audit has established a system to monitor progress by management in implementing actions from internal audit recommendations.

Internal Audit requests updates from management quarterly to monitor progress on implementation of audit recommendations. Results are reported to the Audit Committee.

Follow-up

Internal Audit follows up and obtains evidence that audit recommendations have been implemented by management before recommending closure to the Audit Committee.

Monitoring may be conducted through:

- Another audit.
- Follow-up of all high-risk audit recommendations.
- Follow-up of audit recommendations across several audits.
- Follow-up of audit recommendations by business area.