Practice Advisory 1000-1:
Internal Audit Charter

Primary Related Standard

1000 – Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

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1. Providing a formal, written internal audit charter is critical in managing the internal audit activity. The internal audit charter provides a recognized statement for review and acceptance by management and for approval, as documented in the minutes, by the board. It also facilitates a periodic assessment of the adequacy of the internal audit activity's purpose, authority, and responsibility, which establishes the role of the internal audit activity. If a question should arise, the internal audit charter provides a formal, written agreement with management and the board about the organization's internal audit activity.

2. The chief audit executive (CAE) is responsible for periodically assessing whether the internal audit activity's purpose, authority, and responsibility, as defined in the internal audit charter, continue to be adequate to enable the activity to accomplish its objectives. The CAE is also responsible for communicating the result of this assessment to senior management and the board.

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Practice Advisory 1110-1:
Organizational Independence

Primary Related Standard

1110 – Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

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1. Support from senior management and the board assists the internal audit activity in gaining the cooperation of engagement clients and performing their work free from interference.

2. The chief audit executive (CAE), reporting functionally to the board and administratively to the organization's chief executive officer, facilitates organizational independence. At a minimum the CAE needs to report to an individual in the organization with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of engagement communications, and appropriate action on engagement recommendations.

3. Functional reporting to the board typically involves the board:

    - Approving the internal audit activity's overall charter.
    - Approving the internal audit risk assessment and related audit plan.
    - Receiving communications from the CAE on the results of the internal audit activities or other matters that the CAE determines are necessary, including private meetings with the CAE without management present, as well as annual confirmation of the internal audit activity's organizational independence.
    - Approving all decisions regarding the performance evaluation, appointment, or removal of the CAE.
    - Approving the annual compensation and salary adjustment of the CAE.
    - Making appropriate inquiries of management and the CAE to determine whether there is audit scope or budgetary limitations that impede the ability of the internal audit activity to execute its responsibilities.

4. Administrative reporting is the reporting relationship within the organization's management structure that facilitates the day-to-day operations of the internal audit activity. Administrative reporting typically includes:

    - Budgeting and management accounting.
    - Human resource administration, including personnel evaluations and compensation.
    - Internal communications and information flows.
    - Administration of the internal audit activity's policies and procedures.

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Practice Advisory 1111-1
Board Interaction

Primary Related Standard

1111 – Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

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1. Direct communication occurs when the chief audit executive (CAE) regularly attends and participates in board meetings that relate to the board's oversight responsibilities for auditing, financial reporting, organizational governance, and control. The CAE's attendance and participation at these meetings provide an opportunity to be apprised of strategic business and operational developments, and to raise high-level risk, systems, procedures, or control issues at an early stage. Meeting attendance also provides an opportunity to exchange information concerning the internal audit activity's plans and activities and to keep each other informed on any other matters of mutual interest.

2. Such communication and interaction also occurs when the CAE meets privately with the board, at least annually.

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Practice Advisory 1120-1: Individual Objectivity

Primary Related Standard

1120 – Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

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1. Individual objectivity means the internal auditors perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Internal auditors are not to be placed in situations that could impair their ability to make objective professional judgments.

2. Individual objectivity involves the chief audit executive (CAE) organizing staff assignments that prevent potential and actual conflict of interest and bias, periodically obtaining information from the internal audit staff concerning potential conflict of interest and bias, and, when practicable, rotating internal audit staff assignments periodically.

3. Review of internal audit work results before the related engagement communications are released assists in providing reasonable assurance that the work was performed objectively.

4. The internal auditor's objectivity is not adversely affected when the auditor recommends standards of control for systems or reviews procedures before they are implemented. The auditor's objectivity is considered to be impaired if the auditor designs, installs, drafts procedures for, or operates such systems.

5. The occasional performance of non-audit work by the internal auditor, with full disclosure in the reporting process, would not necessarily impair objectivity. However, it would require careful consideration by management and the internal auditor to avoid adversely affecting the internal auditor's objectivity.

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Practice Advisory 1130-1:
Impairment to Independence or Objectivity

Primary Related Standard

1130 – Impairment to Independence or Objectivity
If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:
Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

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1. Internal auditors are to report to the chief audit executive (CAE) any situations in which an actual or potential impairment to independence or objectivity may reasonably be inferred, or if they have questions about whether a situation constitutes an impairment to objectivity or independence. If the CAE determines that impairment exists or may be inferred, he or she needs to reassign the auditor(s).

2. A scope limitation is a restriction placed on the internal audit activity that precludes the activity from accomplishing its objectives and plans. Among other things, a scope limitation may restrict the:

   - Scope defined in the internal audit charter.
   - Internal audit activity's access to records, personnel, and physical properties relevant to the performance of engagements.
   - Approved engagement work schedule.
   - Performance of necessary engagement procedures.
   - Approved staffing plan and financial budget.

3. A scope limitation, along with its potential effect, needs to be communicated, preferably in writing, to the board. The CAE needs to consider whether it is appropriate to inform the board regarding scope limitations that were previously communicated to and accepted by the board. This may be necessary particularly when there have been organization, board, senior management, or other changes.

4. Internal auditors are not to accept fees, gifts, or entertainment from an employee, client, customer, supplier, or business associate that may create the appearance that the auditor's objectivity has been impaired. The appearance that objectivity has been impaired may apply to current and future engagements conducted by the auditor. The status of engagements is not to be considered as justification for receiving fees, gifts, or entertainment. The receipt of promotional items (such as pens, calendars, or samples) that are available to employees and the general public and have minimal value do not hinder internal auditors' professional judgments. Internal auditors are to report immediately the offer of all material fees or gifts to their supervisors.

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Practice Advisory 1130.A1-1: Assessing Operations for Which Internal Auditors Were Previously Responsible

Primary Related Standard

1130.A1 – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an auditor provides assurance services for an activity for which the auditor had responsibility within the previous year.

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1. Persons transferred to, or temporarily engaged by, the internal audit activity should not be assigned to audit those activities they previously performed or for which they had management responsibility until at least one year has elapsed. Such assignments are presumed to impair objectivity, and additional consideration should be exercised when supervising the engagement work and communicating engagement results.

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Practice Advisory 1130.A2-1: Internal Audit's Responsibility for Other (Non-audit) Functions

Primary Related Standard

1130.A2 – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

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1. Internal auditors are not to accept responsibility for non-audit functions or duties that are subject to periodic internal audit assessments. If they have this responsibility, then they are not functioning as internal auditors.

2. When the internal audit activity, chief audit executive (CAE), or individual internal auditor is responsible for, or management is considering assigning, an operational responsibility that the internal audit activity might audit, the internal auditor's independence and objectivity may be impaired. At a minimum, the CAE needs to consider the following factors in assessing the impact on independence and objectivity:

   - Requirements of the Code of Ethics and the *Standards*.
   - Expectations of stakeholders that may include the shareholders, board of directors, management, legislative bodies, public entities, regulatory bodies, and public interest groups.
   - Allowances and/or restrictions contained in the internal audit charter.
   - Disclosures required by the *Standards*.
   - Audit coverage of the activities or responsibilities undertaken by the internal auditor.
   - Significance of the operational function to the organization (in terms of revenue, expenses, reputation, and influence).
   - Length or duration of the assignment and scope of responsibility.
   - Adequacy of separation of duties.
   - Whether there is any history or other evidence that the internal auditor's objectivity may be at risk.

3. If the internal audit charter contains specific restrictions or limiting language regarding the assignment of non-audit functions to the internal auditor, then disclosure and discussion with management of such restrictions is necessary. If management insists on such an assignment, then disclosure and discussion of this matter with the board is necessary. If the internal audit charter is silent on this matter, the guidance noted in the points below are to be considered. All the points noted below are subordinate to the language of the internal audit charter.

4. When the internal audit activity accepts operational responsibilities and that operation is part of the internal audit plan, the CAE needs to:

- Minimize the impairment to objectivity by using a contracted, third-party entity or external auditors to complete audits of those areas reporting to the CAE.
- Confirm that individuals with operational responsibility for those areas reporting to the CAE do not participate in internal audits of the operation.
- Ensure that internal auditors conducting the assurance engagement of those areas reporting to the CAE are supervised by, and report the results of the assessment, to senior management and the board.
- Disclose the operational responsibilities of the internal auditor for the function, the significance of the operation to the organization (in terms of revenue, expenses, or other pertinent information), and the relationship of those who audited the function.

5. The auditor's operational responsibilities need to be disclosed in the related audit report of those areas reporting to the CAE and in the internal auditor's standard communication to the board. Results of the internal audit may also be discussed with management and/or other appropriate stakeholders. Impairment disclosure does not negate the requirement that assurance engagements for functions over which the CAE has responsibility need to be overseen by a party outside the internal audit activity.

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Practice Advisory 1200-1: Proficiency and Due Professional Care

Primary Related Standard

1200 – Proficiency and Due Professional Care
Engagements must be performed with proficiency and due professional care.

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1. Proficiency and due professional care are the responsibility of the chief audit executive (CAE) and each internal auditor. As such, the CAE ensures that persons assigned to each engagement collectively possess the necessary knowledge, skills, and other competencies to conduct the engagement appropriately.

2. Due professional care includes conforming with the Code of Ethics and, as appropriate, the organization's code of conduct as well as the codes of conduct for other professional designations the internal auditors may hold. The Code of Ethics extends beyond the Definition of Internal Auditing to include two essential components:

   - Principles that are relevant to the profession and practice of internal auditing: integrity, objectivity, confidentiality, and competency.
   - Rules of conduct that describe behavioral norms expected of internal auditors. These rules are an aid to interpreting the principles into practical applications and are intended to guide the ethical conduct of internal auditors.

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Practice Advisory 1210-1:
Proficiency

Primary Related Standard

1210 – Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Interpretation:

Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

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1. The knowledge, skills, and other competencies referred to in the standard include:

   - Proficiency in applying internal audit standards, procedures, and techniques in performing engagements. Proficiency means the ability to apply knowledge to situations likely to be encountered and to deal with them appropriately without extensive recourse to technical research and assistance.
   - Proficiency in accounting principles and techniques if internal auditors work extensively with financial records and reports.
   - Knowledge to identify the indicators of fraud.
   - Knowledge of key information technology risks and controls and available technology-based audit techniques.
   - An understanding of management principles to recognize and evaluate the materiality and significance of deviations from good business practices. An understanding means the ability to apply broad knowledge to situations likely to be encountered, to recognize significant deviations, and to be able to carry out the research necessary to arrive at reasonable solutions.
   - An appreciation of the fundamentals of business subjects such as accounting, economics, commercial law, taxation, finance, quantitative methods, information technology, risk management, and fraud. An appreciation means the ability to recognize the existence of problems or potential problems and to identify the additional research to be undertaken or the assistance to be obtained.
   - Skills in dealing with people, understanding human relations, and maintaining satisfactory relationships with engagement clients.
   - Skills in oral and written communications to clearly and effectively convey such matters as engagement objectives, evaluations, conclusions, and recommendations.

2. Suitable criteria of education and experience for filling internal audit positions is established by the chief audit executive (CAE) who gives due consideration to the scope of work and level of responsibility and obtains reasonable assurance as to each prospective auditor's qualifications and proficiency.

3. The internal audit activity needs to collectively possess the knowledge, skills, and other competencies essential to the practice of the profession within the organization. Performing an annual analysis of an internal audit activity's knowledge, skills, and other competencies helps identify areas of opportunity that can be addressed by continuing professional development, recruiting, or co-sourcing.

4. Continuing professional development is essential to help ensure internal audit staff remains proficient.

5. The CAE may obtain assistance from experts outside the internal audit activity to support or complement areas where the internal audit activity is not sufficiently proficient.

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Practice Advisory 1210.A1-1: Obtaining External Service Providers to Support or Complement the Internal Audit Activity

Primary Related Standard

1210.A1 – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

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1. Each member of the internal audit activity need not be qualified in all disciplines. The internal audit activity may use external service providers or internal resources that are qualified in disciplines such as accounting, auditing, economics, finance, statistics, information technology, engineering, taxation, law, environmental affairs, and other areas as needed to meet the internal audit activity's responsibilities.

2. An external service provider is a person or firm, independent of the organization, who has special knowledge, skill, and experience in a particular discipline. External service providers include actuaries, accountants, appraisers, culture or language experts, environmental specialists, fraud investigators, lawyers, engineers, geologists, security specialists, statisticians, information technology specialists, the organization's external auditors, and other audit organizations. An external service provider may be engaged by the board, senior management, or the chief audit executive (CAE).

3. External service providers may be used by the internal audit activity in connection with, among other things:

    - Achievement of the objectives in the engagement work schedule.
    - Audit activities where a specialized skill and knowledge are needed such as information technology, statistics, taxes, or language translations.
    - Valuations of assets such as land and buildings, works of art, precious gems, investments, and complex financial instruments.
    - Determination of quantities or physical condition of certain assets such as mineral and petroleum reserves.
    - Measuring the work completed and to be completed on contracts in progress.
    - Fraud and security investigations.
    - Determination of amounts, by using specialized methods such as actuarial determinations of employee benefit obligations.
    - Interpretation of legal, technical, and regulatory requirements.
    - Evaluation of the internal audit activity's quality assurance and improvement program in conformance with the *Standards*.
    - Mergers and acquisitions.
    - Consulting on risk management and other matters.

4. When the CAE intends to use and rely on the work of an external service provider, the CAE needs to consider the competence, independence, and objectivity of the external service provider as it relates to the particular assignment to be performed. The assessment of competency, independence, and objectivity is also needed when the external service provider is selected by senior management or the board, and the CAE intends to use and rely on the external service provider's work. When the selection is made by others and the CAE's assessment determines that he or she should not use and rely on the work of the external service provider, communication of such results is needed to senior management or the board, as appropriate.

5. The CAE determines that the external service provider possesses the necessary knowledge, skills, and other competencies to perform the engagement by considering:

   - Professional certification, license, or other recognition of the external service provider's competence in the relevant discipline.
   - Membership of the external service provider in an appropriate professional organization and adherence to that organization's code of ethics.
   - The reputation of the external service provider. This may include contacting others familiar with the external service provider's work.
   - The external service provider's experience in the type of work being considered.
   - The extent of education and training received by the external service provider in disciplines that pertain to the particular engagement.
   - The external service provider's knowledge and experience in the industry in which the organization operates.

6. The CAE needs to assess the relationship of the external service provider to the organization and to the internal audit activity to ensure that independence and objectivity are maintained throughout the engagement. In performing the assessment, the CAE verifies that there are no financial, organizational, or personal relationships that will prevent the external service provider from rendering impartial and unbiased judgments and opinions when performing or reporting on the engagement.

7. The CAE assesses the independence and objectivity of the external service provider by considering:

   - The financial interest the external service provider may have in the organization.
   - The personal or professional affiliation the external service provider may have to the board, senior management, or others within the organization.
   - The relationship the external service provider may have had with the organization or the activities being reviewed.
   - The extent of other ongoing services the external service provider may be performing for the organization.
   - Compensation or other incentives that the external service provider may have.

8. If the external service provider is also the organization's external auditor and the nature of the engagement is extended audit services, the CAE needs to ascertain that work performed does not impair the external auditor's independence. Extended audit services refer to those services beyond the requirements of audit standards generally accepted by external auditors. If the organization's external auditors act or appear to act as members of senior management, management, or as employees of the organization, then their independence is impaired. Additionally, external auditors may provide the organization with other services such as tax and consulting. Independence needs to be assessed in relation to the full range of services provided to the organization.

9. To ascertain that the scope of work is adequate for the purposes of the internal audit activity, the CAE obtains sufficient information regarding the scope of the external service provider's work. It may be prudent to document these and other matters in an engagement letter or contract. To accomplish this, the CAE reviews the following with the external service provider:

   - Objectives and scope of work including deliverables and time frames.
   - Specific matters expected to be covered in the engagement communications.
   - Access to relevant records, personnel, and physical properties.
   - Information regarding assumptions and procedures to be employed.
   - Ownership and custody of engagement working papers, if applicable.
   - Confidentiality and restrictions on information obtained during the engagement.
   - Where applicable, conformance with the *Standards* and the internal audit activity's standards for working practices.

10. In reviewing the work of an external service provider, the CAE evaluates the adequacy of work performed, which includes sufficiency of information obtained to afford a reasonable basis for the conclusions reached and the resolution of exceptions or other unusual matters.

11. When the CAE issues engagement communications, and an external service provider was used, the CAE may, as appropriate, refer to such services provided. The external service provider needs to be informed and, if appropriate, concurrence should be obtained before making such reference in engagement communications.

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Practice Advisory 1220-1:
Due Professional Care

Primary Related Standard

1220 – Due Professional Care
Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

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1. Due professional care calls for the application of the care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstances. Due professional care is therefore appropriate to the complexities of the engagement being performed. Exercising due professional care involves internal auditors being alert to the possibility of fraud, intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflicts of interest, as well as being alert to those conditions and activities where irregularities are most likely to occur. This also involves internal auditors identifying inadequate controls and recommending improvements to promote conformance with acceptable procedures and practices.

2. Due professional care implies reasonable care and competence, not infallibility or extraordinary performance. As such, due professional care requires the internal auditor to conduct examinations and verifications to a reasonable extent. Accordingly, internal auditors cannot give absolute assurance that noncompliance or irregularities do not exist. Nevertheless, the possibility of material irregularities or noncompliance needs to be considered whenever an internal auditor undertakes an internal audit assignment.

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Practice Advisory 1230-1:
Continuing Professional Development

Primary Related Standard

1230 – Continuing Professional Development
Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

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1. Internal auditors are responsible for continuing their education to enhance and maintain their proficiency. Internal auditors need to stay informed about improvements and current developments in internal audit standards, procedures, and techniques, including The IIA's International Professional Practices Framework guidance. Continuing professional education (CPE) may be obtained through membership, participation, and volunteering in professional organizations such as The IIA; attendance at conferences, seminars, and in-house training programs; completion of college and self-study courses; and involvement in research projects.

2. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certification, such as the Certified Internal Auditor designation, other designations offered by The IIA, and additional designations related to internal auditing.

3. Internal auditors are encouraged to pursue CPE (related to their organization's activities and industry) to maintain their proficiency with regard to the governance, risk, and control processes of their unique organization.

4. Internal auditors who perform specialized audit and consulting work — such as information technology, tax, actuarial, or systems design — may undertake specialized CPE to allow them to perform their internal audit work with proficiency.

5. Internal auditors with professional certifications are responsible for obtaining sufficient CPE to satisfy requirements related to the professional certification held.

6. Internal auditors not presently holding appropriate certifications are encouraged to pursue an educational program and/or individual study to obtain professional certification.

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Practice Advisory 1300-1: Quality Assurance and Improvement Program

Primary Related Standard

1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards *and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.*

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1. The chief audit executive (CAE) is responsible for establishing an internal audit activity whose scope of work includes the activities in the *Standards* and in the Definition of Internal Auditing. To ensure that this occurs, Standard 1300 requires that the CAE develop and maintain a quality assurance and improvement program (QAIP).

2. The CAE is accountable for implementing processes designed to provide reasonable assurance to the various stakeholders that the internal audit activity:

   - Performs in accordance with the internal audit charter, which is consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.
   - Operates in an effective and efficient manner.
   - Is perceived by those stakeholders as adding value and improving the organization's operations.

   These processes include appropriate supervision, periodic internal assessments and ongoing monitoring of quality assurance, and periodic external assessments.

3. The QAIP needs to be sufficiently comprehensive to encompass all aspects of operation and management of an internal audit activity, as found in the Definition of Internal Auditing, the Code of Ethics, the *Standards,* and best practices of the profession. The QAIP process is performed by or under direct supervision of the CAE. Except in small internal audit activities, the CAE would usually delegate most QAIP responsibilities to subordinates. In large or complex environments (e.g., numerous business units and/or locations), the CAE establishes a formal QAIP function — headed by an internal audit executive — independent of the audit and consulting segments of the internal audit activity. This executive (and limited staff) administers and monitors the activities needed for a successful QAIP.

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Practice Advisory 1310-1: Requirements of the Quality Assurance and Improvement Program

Primary Related Standard

1310 – Requirements of the Quality Assurance and Improvement Program
The quality assurance and improvement program must include both internal and external assessments.

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1. A quality assurance and improvement program (QAIP) is an ongoing and periodic assessment of the entire spectrum of audit and consulting work performed by the internal audit activity. These ongoing and periodic assessments are composed of rigorous, comprehensive processes; continuous supervision and testing of internal audit and consulting work; and periodic validations of conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. This also includes ongoing measurements and analyses of performance metrics (e.g., internal audit plan accomplishment, cycle time, recommendations accepted, and customer satisfaction). If the assessments' results indicate areas for improvement by the internal audit activity, the chief audit executive (CAE) will implement the improvements through the QAIP.

2. Assessments evaluate and conclude on the quality of the internal audit activity and lead to recommendations for appropriate improvements. QAIPs include an evaluation of:

   - Conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*, including timely corrective actions to remedy any significant instances of nonconformance.
   - Adequacy of the internal audit activity's charter, goals, objectives, policies, and procedures.
   - Contribution to the organization's governance, risk management, and control processes.
   - Compliance with applicable laws, regulations, and government or industry standards.
   - Effectiveness of continuous improvement activities and adoption of best practices.
   - The extent to which the internal audit activity adds value and improves the organization's operations.

3. The QAIP efforts also include follow-up on recommendations involving appropriate and timely modification of resources, technology, processes, and procedures.

4. To provide accountability and transparency, the CAE communicates the results of external and, as appropriate, internal quality program assessments to the various stakeholders of the activity (such as senior management, the board, and external auditors). At least annually, the CAE reports to senior management and the board on the quality program efforts and results.

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Practice Advisory 1311-1:
Internal Assessments

Primary Related Standard

1311 – Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards*.*

Periodic reviews are assessments conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards*.*

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

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1. The processes and tools used in ongoing internal assessments include:

   - Engagement supervision,
   - Checklists and procedures (e.g., in an audit and procedures manual) are being followed,
   - Feedback from audit customers and other stakeholders,
   - Selective peer reviews of workpapers by staff not involved in the respective audits,
   - Project budgets, timekeeping systems, audit plan completion, and cost recoveries, and/or
   - Analyses of other performance metrics (such as cycle time and recommendations accepted).

2. Conclusions are developed as to the quality of ongoing performance and follow-up action taken to ensure appropriate improvements are implemented.

3. The IIA's *Quality Assessment Manual*, or a comparable set of guidance and tools, should serve as the basis for periodic internal assessments.

4. Periodic internal assessments may:

- Include more in-depth interviews and surveys of stakeholder groups.
- Be performed by members of the internal audit activity (self-assessment).
- Be performed by Certified Internal Auditors (CIAs) or other competent audit professionals, currently assigned elsewhere in the organization.
- Encompass a combination of self-assessment and preparation of materials subsequently reviewed by CIAs, or other competent audit professionals.
- Include benchmarking of the internal audit activity's practices and performance metrics against relevant best practices of the internal audit profession.

5. A periodic internal assessment performed within a short time before an external assessment can serve to facilitate and reduce the cost of the external assessment. If the periodic internal assessment is performed by a qualified, independent external reviewer or review team, the assessment results should not communicate any assurances on the outcome of the subsequent external quality assessment. The report may offer suggestions and recommendations to enhance the internal audit activities' practices. If the external assessment takes the form of a self-assessment with independent validation, the periodic internal assessment can serve as the self-assessment portion of this process.

6. Conclusions are developed as to quality of performance and appropriate action initiated to achieve improvements and conformity to the *Standards,* as necessary.

7. The chief audit executive (CAE) establishes a structure for reporting results of internal assessments that maintains appropriate credibility and objectivity. Generally, those assigned responsibility for conducting ongoing and periodic reviews, report to the CAE while performing the reviews and communicate results directly to the CAE.

8. At least annually, the CAE reports the results of internal assessments, necessary action plans, and their successful implementation to senior management and the board.

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Practice Advisory 1312-1:
External Assessments

Primary Related Standard

1312 – External Assessments

External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board:

- The need for more frequent external assessments.
- The qualifications and independence of the external reviewer or review team, including potential conflict of interest.

Interpretation:

A qualified reviewer or review team consists of individuals who are competent in the professional practice of internal auditing and the external assessment process. The evaluation of the competency of the reviewer and review team is a judgment that considers the professional internal audit experience and professional credentials of the individuals selected to perform the review. The evaluation of qualifications also considers the size and complexity of the organizations that the reviewers have been associated with in relation to the organization for which the internal audit activity is being assessed, as well as the need for particular sector, industry, or technical knowledge.

An independent reviewer or review team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

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1. External assessments cover the entire spectrum of audit and consulting work performed by the internal audit activity and should not be limited to assessing its quality assurance and improvement program. To achieve optimum benefits from an external assessment, the scope of work should include benchmarking, identification, and reporting of leading practices that could assist the internal audit activity in becoming more efficient and/or effective. This can be accomplished through either a full external assessment by a qualified, independent external reviewer or review team or a comprehensive internal self-assessment with independent validation by a qualified, independent external reviewer or review team. Nonetheless, the chief audit executive (CAE) is to ensure the scope clearly states the expected deliverables of the external assessment in each case.

2. External assessments of an internal audit activity contain an expressed opinion as to the entire spectrum of assurance and consulting work performed (or that should have been performed based on the internal audit charter) by the internal audit activity, including its conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards* and, as appropriate, includes recommendations for improvement. Apart from conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*, the scope of the assessment is adjusted at the discretion of the CAE, senior management, or the board. These assessments can have considerable value to the CAE and other members of the internal audit activity, especially when benchmarking and best practices are shared.

3. On completion of the review, a formal communication is to be given to senior management and the board.

4. There are two approaches to external assessments. The first approach is a full external assessment conducted by a qualified, independent external reviewer or review team. This approach involves an outside team of competent professionals under the leadership of an experienced and professional project manager. The second approach involves the use of a qualified, independent external reviewer or review team to conduct an independent validation of the internal self-assessment and a report completed by the internal audit activity**.** Independent external reviewers should be well versed in leading internal audit practices.

5. Individuals who perform the external assessment are free from any obligation to, or interest in, the organization whose internal audit activity is the subject of the external assessment or the personnel of such organization. Particular matters relating to independence, which are to be considered by the CAE in consultation with the board, in selecting a qualified, independent external reviewer or review team, include:

   - Any real or apparent conflict of interest of firms that provide:
     - The external audit of financial statements.
     - Significant consulting services in the areas of governance, risk management, financial reporting, internal control, and other related areas.
     - Assistance to the internal audit activity. The significance and amount of work performed by the professional service provider is to be considered in the deliberation.
   - Any real or apparent conflict of interest of former employees of the organization who would perform the assessment. Consideration should be given to the length of time the individual has been independent of the organization.
   - Individuals who perform the assessment are independent of the organization whose internal audit activity is the subject of the assessment and do not have any real or apparent conflict of interest. "Independent of the organization" means not a part of, or under the control of, the organization to which the internal audit activity belongs. In the selection of a qualified, independent external reviewer or review team, consideration is to be given to any real or apparent conflict of interest the reviewer may have due to present or past relationships with the organization or its internal audit activity, including the reviewer's participation in internal quality assessments.
   - Individuals in another department of the subject organization or in a related organization, although organizationally separate from the internal audit activity, are not considered independent for purposes of conducting an external assessment. A "related organization" may be a parent organization; an affiliate in the same group of entities; or an entity with regular oversight, supervision, or quality assurance responsibilities with respect to the subject organization.
   - Real or apparent conflict involving peer review arrangements. Peer review arrangements between three or more organizations (e.g., within an industry or other affinity group, regional association, or other group of organizations — except as precluded by the "related organization" definition in the previous point) may be structured in a manner that alleviates independence concerns, but care is taken to ensure that the issue of

independence does not arise. Peer reviews between two organizations would not pass the independence test.

- To overcome concerns of the appearance or reality of impairment of independence in instances such as those discussed in this section, one or more independent individuals could be part of the external assessment team to independently validate the work of that external assessment team.

6. Integrity requires reviewer(s) to be honest and candid within the constraints of confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. Objectivity is a state of mind and a quality that lends value to a reviewer(s) services. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflict of interest.

7. Performing and communicating the results of an external assessment require the exercise of professional judgment. Accordingly, an individual serving as an external reviewer should:

   - Be a competent, certified internal audit professional who possesses current, in-depth knowledge of the *Standards.*
   - Be well versed in the best practices of the profession.
   - Have at least three years of recent experience in the practice of internal auditing or related consulting at a management level.

   Leaders of independent review teams and external reviewers who independently validate the results of the self-assessment should have an additional level of competence and experience gained from working previously as a team member on an external quality assessment, successful completion of The IIA's quality assessment training course or similar training, and CAE or comparable senior internal audit management experience.

8. The reviewer(s) should possess relevant technical expertise and industry experience. Individuals with expertise in other specialized areas may assist the team. For example, specialists in enterprise risk management, IT auditing, statistical sampling, operations monitoring systems, or control self-assessment may participate in certain segments of the assessment.

9. The CAE involves senior management and the board in determining the approach and selection of an external quality assessment provider.

10. The external assessment consists of a broad scope of coverage that includes the following elements of the internal audit activity:

    - Conformance with the Definition of Internal Auditing; the Code of Ethics; and the *Standards*; and the internal audit activity's charter, plans, policies, procedures, practices, and applicable legislative and regulatory requirements,
    - Expectations of the internal audit activity expressed by the board, senior management, and operational managers,
    - Integration of the internal audit activity into the organization's governance process, including the relationships between and among the key groups involved in the process,
    - Tools and techniques employed by the internal audit activity,

- Mix of knowledge, experience, and disciplines within the staff, including staff focus on process improvement, and
- Determination as to whether or not the internal audit activity adds value and improves the organization's operations.

11. The preliminary results of the review are discussed with the CAE during, and at the conclusion of, the assessment process. Final results are communicated to the CAE, or other official, who authorized the review for the organization, preferably with copies sent directly to appropriate members of senior management and the board.

12. The communication includes:

- An opinion on the internal audit activity's conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards* based on a structured rating process. The term "conformance" means the practices of the internal audit activity, taken as a whole, satisfy the requirements of the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. Similarly, "nonconformance" means the impact and severity of the deficiencies in the practices of the internal audit activity are so significant they impair the internal audit activity's ability to discharge its responsibilities. The degree of "partial conformance" with the Definition of Internal Auditing, the Code of Ethics, and/or individual standards, if relevant to the overall opinion, should also be expressed in the report on the independent assessment. The expression of an opinion on the results of the external assessment requires the application of sound business judgment, integrity, and due professional care.
- An assessment and evaluation of the use of best practices, both those observed during the assessment and others potentially applicable to the activity.
- Recommendations for improvement, where appropriate.
- Responses from the CAE that include an action plan and implementation dates.

13. To provide accountability and transparency, the CAE communicates the results of external quality assessments, including specifics of planned remedial actions for significant issues and subsequent information as to accomplishment of those planned actions, with the various stakeholders of the activity, such as senior management, the board, and external auditors.

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Practice Advisory 1312-2:
External Assessments:
Self-assessment with Independent Validation

Primary Related Standard

1312 – External Assessments

External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board:

- The need for more frequent external assessments.
- The qualifications and independence of the external reviewer or review team, including potential conflict of interest.

Interpretation:

A qualified reviewer or review team consists of individuals who are competent in the professional practice of internal auditing and the external assessment process. The evaluation of the competency of the reviewer and review team is a judgment that considers the professional internal audit experience and professional credentials of the individuals selected to perform the review. The evaluation of qualifications also considers the size and complexity of the organizations that the reviewers have been associated with in relation to the organization for which the internal audit activity is being assessed, as well as the need for particular sector, industry, or technical knowledge.

An independent reviewer or review team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

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1. An external assessment by a qualified, independent reviewer or review team may be troublesome for smaller internal audit activities or there may be circumstances in other organizations where a full external assessment by an independent team is not deemed appropriate or necessary. For example, the internal audit activity may (a) be in an industry subject to extensive regulation and/or supervision, (b) be otherwise subject to extensive external oversight and direction relating to governance and internal controls, (c) have been recently subjected to external review(s) and/or consulting services in which there was extensive benchmarking with best practices, or (d) in the judgment of the chief audit executive (CAE), the benefits of self-assessment for staff development and the strength of the internal quality assurance and improvement program currently outweigh the benefits of a quality assessment by an external team.

2. A self-assessment with independent [external] validation includes:

   - A comprehensive and fully documented self-assessment process, which emulates the external assessment process, at least with respect to evaluation of conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.

- An independent, on-site validation by a qualified, independent reviewer.
- Economical time and resource requirements — e.g., the primary focus would be on conformance with the *Standards*.
- Limited attention to other areas — such as benchmarking, review and consultation as to employment of leading practices, and interviews with senior and operating management — may be reduced. However, the information produced by these parts of the assessment is one of the benefits of an external assessment.

3. The same guidance and criteria as set forth in Practice Advisory 1312-1 would apply for a self-assessment with independent validation.

4. A team under the direction of the CAE performs and fully documents the self-assessment process. A draft report, similar to that for an external assessment, is prepared including the CAE's judgment on conformance with the *Standards*.

5. A qualified, independent reviewer or review team performs sufficient tests of the self-assessment so as to validate the results and express the indicated level of the activity's conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The independent validation follows the process outlined in The IIA's *Quality Assessment Manual* or a similar comprehensive process.

6. As part of the independent validation, the independent external reviewer — upon completion of a rigorous review of the self-assessment team's evaluation of conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*:

   - Reviews the draft report and attempts to reconcile unresolved issues (if any).
   - If in agreement with the opinion of conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*, adds wording (as needed) to the report, concurring with the self-assessment process and opinion and — to the extent deemed appropriate — in the report's findings, conclusions, and recommendations.
   - If not in agreement with the evaluation, adds dissenting wording to the report, specifying the points of disagreement with it and — to the extent deemed appropriate — with the significant findings, conclusions, recommendations, and opinions in the report.
   - Alternatively, may prepare a separate independent validation report — concurring or expressing disagreement as outlined above — to accompany the report of the self-assessment.

7. The final report(s) of the self-assessment with independent validation is signed by the self-assessment team and the qualified, independent external reviewer(s) and issued by the CAE to senior management and the board.

8. To provide accountability and transparency, the CAE communicates the results of external quality assessments — including specifics of planned remedial actions for significant issues and subsequent information as to accomplishment of those planned actions — with the various stakeholders of the activity, such as senior management, the board, and external auditors.

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Practice Advisory 1321-1: Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*"

Primary Related Standard

1321 – Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*"

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement.

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1. Ongoing monitoring and external and internal assessments of an internal audit activity are performed to evaluate and express an opinion as to the internal audit activity's conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards* and, as appropriate, should include recommendations for improvement.

2. The phrase to be used may be: "in conformance with the *Standards,*" or "in conformity to the *Standards*." To use one of these phrases, an external assessment is required at least once during each five-year period, along with ongoing monitoring and periodic internal assessments and these activities need to have concluded that the internal audit activity is in conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. Initial use of the conformance phrase is not appropriate until an external review has demonstrated that the internal audit activity is in conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.

3. The chief audit executive (CAE) is responsible for disclosing instances of nonconformance that impact the overall scope or operation of the internal audit activity, including failure to obtain an external assessment within a five-year period, to senior management and the board.

4. Before the internal audit activity's use of the conformance phrase, any instances of nonconformance that have been disclosed by a quality assessment (internal or external) which impair the internal audit activity's ability to discharge its responsibilities needs to be adequately remedied. In addition, the following are needed:

   - Remedial actions need to be documented and reported to the relevant assessor(s) to obtain concurrence that the nonconformance has been adequately remedied, and
   - Remedial actions and agreement of the relevant assessor(s) therewith need to be reported to senior management and the board.

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Practice Advisory 2010-1:
Linking the Audit Plan to
Risk and Exposures

Primary Related Standard

2010 – Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

Interpretation:

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization's risk management framework, including using risk tolerance levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consultation with senior management and the board.

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1. In developing the internal audit activity's audit plan, many chief audit executives (CAEs) find it useful to first develop or update the audit universe. The audit universe is a list of all the possible audits that could be performed. The CAE may obtain input on the audit universe from senior management and the board.

2. The audit universe can include components from the organization's strategic plan. By incorporating components of the organization's strategic plan, the audit universe will consider and reflect the overall business' objectives. Strategic plans also likely reflect the organization's attitude toward risk and the degree of difficulty to achieving planned objectives. The audit universe will normally be influenced by the results of the risk management process. The organization's strategic plan considers the environment in which the organization operates. These same environmental factors would likely impact the audit universe and assessment of relative risk.

3. The CAE prepares the internal audit activity's audit plan based on the audit universe, input from senior management and the board, and an assessment of risk and exposures affecting the organization. Key audit objectives are usually to provide senior management and the board with assurance and information to help them accomplish the organization's objectives, including an assessment of the effectiveness of management's risk management activities.

4. The audit universe and related audit plan are updated to reflect changes in management direction, objectives, emphasis, and focus. It is advisable to assess the audit universe on at least an annual basis to reflect the most current strategies and direction of the organization. In some situations, audit plans may need to be updated more frequently (e.g., quarterly) in response to changes in the organization's business, operations, programs, systems, and controls.

5. Audit work schedules are based on, among other factors, an assessment of risk and exposures. Prioritizing is needed to make decisions for applying resources. A variety of risk models exist to assist the CAE. Most risk models use risk factors such as impact, likelihood, materiality, asset liquidity, management competence, quality of and adherence to internal controls, degree of change or stability, timing and results of last audit engagement, complexity, and employee and government relations.

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Practice Advisory 2020-1:
Communication and Approval

Primary Related Standard

2020 – Communication and Approval
The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

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1. The chief audit executive (CAE) will submit annually to senior management and the board for review and approval a summary of the internal audit plan, work schedule, staffing plan, and financial budget. This summary will inform senior management and the board of the scope of internal audit work and of any limitations placed on that scope. The CAE will also submit all significant interim changes for approval and information.

2. The approved engagement work schedule, staffing plan, and financial budget, along with all significant interim changes, are to contain sufficient information to enable senior management and the board to ascertain whether the internal audit activity's objectives and plans support those of the organization and the board and are consistent with the internal audit charter.

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Practice Advisory 2030-1:
Resource Management

Primary Related Standard

2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.

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1. The chief audit executive (CAE) is primarily responsible for the sufficiency and management of internal audit resources in a manner that ensures the fulfillment of internal audit's responsibilities, as detailed in the internal audit charter. This includes effective communication of resource needs and reporting of status to senior management and the board. Internal audit resources may include employees, external service providers, financial support, and technology-based audit techniques. Ensuring the adequacy of internal audit resources is ultimately a responsibility of the organization's senior management and board; the CAE should assist them in discharging this responsibility.

2. The skills, capabilities, and technical knowledge of the internal audit staff are to be appropriate for the planned activities. The CAE will conduct a periodic skills assessment or inventory to determine the specific skills required to perform the internal audit activities. The skills assessment is based on and considers the various needs identified in the risk assessment and audit plan. This includes assessments of technical knowledge, language skills, business acumen, fraud detection and prevention competency, and accounting and audit expertise.

3. Internal audit resources need to be sufficient to execute the audit activities in the breadth, depth, and timeliness expected by senior management and the board, as stated in the internal audit charter. Resource planning considerations include the audit universe, relevant risk levels, the internal audit plan, coverage expectations, and an estimate of unanticipated activities.

4. The CAE also ensures that resources are deployed effectively. This includes assigning auditors who are competent and qualified for specific assignments. It also includes developing a resourcing approach and organizational structure appropriate for the business structure, risk profile, and geographical dispersion of the organization.

5. From an overall resource management standpoint, the CAE considers succession planning, staff evaluation and development programs, and other human resource disciplines. The CAE also addresses the resourcing needs of the internal audit activity, whether those skills are present or not within the internal audit activity itself. Other approaches to addressing resource needs include external service providers, employees from other departments within the organization, or specialized consultants.

6. Because of the critical nature of resources, the CAE maintains ongoing communications and dialog with senior management and the board on the adequacy of resources for the internal audit activity. The CAE periodically presents a summary of status and adequacy of resources to senior management and the board. To that end, the CAE develops appropriate metrics, goals, and objectives to monitor the overall adequacy of resources. This can include comparisons of resources to the internal audit plan, the impact of temporary shortages or vacancies, educational and training activities, and changes to specific skill needs based on changes in the organization's business, operations, programs, systems, and controls.

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Practice Advisory 2040-1:
Policies and Procedures

Primary Related Standard

2040 – Policies and Procedures
The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:
The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

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1. The chief audit executive develops policies and procedures. Formal administrative and technical audit manuals may not be needed by all internal audit activities. A small internal audit activity may be managed informally. Its audit staff may be directed and controlled through daily, close supervision and memoranda that state policies and procedures to be followed. In a large internal audit activity, more formal and comprehensive policies and procedures are essential to guide the internal audit staff in the execution of the internal audit plan.

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Practice Advisory 2050-1: Coordination

Primary Related Standard

2050 – Coordination

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

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1. Oversight of the work of external auditors, including coordination with the internal audit activity, is the responsibility of the board. Coordination of internal and external audit work is the responsibility of the chief audit executive (CAE). The CAE obtains the support of the board to coordinate audit work effectively.

2. Organizations may use the work of external auditors to provide assurance related to activities within the scope of internal auditing. In these cases, the CAE takes the steps necessary to understand the work performed by the external auditors, including:

   - The nature, extent, and timing of work planned by external auditors, to be satisfied that the external auditors' planned work, in conjunction with the internal auditors' planned work, satisfies the requirements of Standard 2100.
   - The external auditor's assessment of risk and materiality.
   - The external auditors' techniques, methods, and terminology to enable the CAE to (1) coordinate internal and external auditing work; (2) evaluate, for purposes of reliance, the external auditors' work; and (3) communicate effectively with external auditors.
   - Access to the external auditors' programs and working papers, to be satisfied that the external auditors' work can be relied upon for internal audit purposes. Internal auditors are responsible for respecting the confidentiality of those programs and working papers.

3. The external auditor may rely on the work of the internal audit activity in performing their work. In this case, the CAE needs to provide sufficient information to enable external auditors to understand the internal auditors' techniques, methods, and terminology to facilitate reliance by external auditors on work performed. Access to the internal auditors' programs and working papers is provided to external auditors in order for external auditors to be satisfied as to the acceptability for external audit purposes of relying on the internal auditors' work.

4. It may be efficient for internal and external auditors to use similar techniques, methods, and terminology to coordinate their work effectively and to rely on the work of one another.

5. Planned audit activities of internal and external auditors need to be discussed to ensure that audit coverage is coordinated and duplicate efforts are minimized where possible. Sufficient meetings are to be scheduled during the audit process to ensure coordination of audit work and efficient and timely completion of audit activities, and to determine whether observations and recommendations from work performed to date require that the scope of planned work be adjusted.

6. The internal audit activity's final communications, management's responses to those communications, and subsequent follow-up reviews are to be made available to external auditors. These communications assist external auditors in determining and adjusting the scope and timing of their work. In addition, internal auditors need access to the external auditors' presentation materials and management letters. Matters discussed in presentation materials and included in management letters need to be understood by the CAE and used as input to internal auditors in planning the areas to emphasize in future internal audit work. After review of management letters and initiation of any needed corrective action by appropriate members of senior management and the board, the CAE ensures that appropriate follow-up and corrective actions have been taken.

7. The CAE is responsible for regular evaluations of the coordination between internal and external auditors. Such evaluations may also include assessments of the overall efficiency and effectiveness of internal and external audit activities, including aggregate audit cost. The CAE communicates the results of these evaluations to senior management and the board, including relevant comments about the performance of external auditors.

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Practice Advisory 2060-1:
Reporting to Senior Management and the Board

Primary Related Standard

2060 – Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

Interpretation:

The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

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1. The chief audit executive (CAE) needs to submit activity reports to senior management and the board periodically. Activity reports highlight significant engagement observations and recommendations and inform senior management and the board of significant deviations from approved engagement work schedules, staffing plans, and financial budgets; the reasons for the deviations; and action taken or needed.

2. Significant engagement observations are those conditions that, in the judgment of the CAE, could adversely affect the organization. Significant engagement observations may include conditions dealing with fraud, irregularities, illegal acts, errors, inefficiency, waste, ineffectiveness, conflicts of interest, and control weaknesses.

3. Senior management and the board make decisions on the appropriate action to be taken regarding significant engagement observations and recommendations. Senior management and the board may decide to assume the risk of not correcting the reported condition because of cost or other considerations. The board needs to be informed of senior management's decisions on all significant engagement observations and recommendations.

4. The CAE considers whether it is appropriate to inform the board regarding previously reported, significant engagement observations and recommendations in those instances when senior management and the board assumed the risk of not correcting the reported condition. This may be necessary when there have been significant changes that affect the risk profile.

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Practice Advisory 2120-1:
Assessing the Adequacy of
Risk Management Processes

Primary Related Standard

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from internal auditor's assessment that:

- *Organizational objectives support and align with the organization's mission.*
- *Significant risks are identified and assessed.*
- *Appropriate risk responses are selected that align risks with the organization's risk appetite.*
- *Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.*

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

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1. Risk management is a key responsibility of senior management and the board. To achieve its business objectives, management ensures that sound risk management processes are in place and functioning. Boards have an oversight role to determine that appropriate risk management processes are in place and that these processes are adequate and effective. In this role, they may direct the internal audit activity to assist them by examining, evaluating, reporting, and/or recommending improvements to the adequacy and effectiveness of management's risk processes.

2. Management and the board are responsible for their organization's risk management and control processes. However, internal auditors acting in a consulting role can assist the organization in identifying, evaluating, and implementing risk management methodologies and controls to address those risks.

3. In situations where the organization does not have formal risk management processes, the chief audit executive (CAE) formally discusses with management and the board their obligations to understand, manage, and monitor risks within the organization and the need to satisfy themselves that there are processes operating within the organization, even if informal, that provide the appropriate level of visibility into the key risks and how they are being managed and monitored.

4. The CAE is to obtain an understanding of senior management's and the board's expectations of the internal audit activity in the organization's risk management process. This understanding is then codified in the charters of the internal audit activity and the board. Internal auditing's responsibilities are to be coordinated between all groups and individuals within the organization's risk management process. The internal audit activity's role in the risk management process of an organization can change over time and may encompass:

   - No role.
   - Auditing the risk management process as part of the internal audit plan.
   - Active, continuous support and involvement in the risk management process such as participation on oversight committees, monitoring activities, and status reporting.
   - Managing and coordinating the risk management process.

5. Ultimately, it is the role of senior management and the board to determine the role of internal auditing in the risk management process. Their view on internal auditing's role is likely to be determined by factors such as the culture of the organization, ability of the internal audit staff, and local conditions and customs of the country. However, taking on management's responsibility regarding the risk management process and the potential threat to the internal audit activity's independence requires a full discussion and board approval.

6. The techniques used by various organizations for their risk management practices can vary significantly. Depending on the size and complexity of the organization's business activities, risk management processes can be:

   - Formal or informal.
   - Quantitative or subjective.
   - Embedded in the business units or centralized at a corporate level.

7. The organization designs processes based on its culture, management style, and business objectives. For example, the use of derivatives or other sophisticated capital markets products by the organization could require the use of quantitative risk management tools. Smaller, less complex organizations could use an informal risk committee to discuss the organization's risk profile and to initiate periodic actions. The internal auditor determines that the methodology chosen is sufficiently comprehensive and appropriate for the nature of the organization's activities.

8. Internal auditors need to obtain sufficient and appropriate evidence to determine that the key objectives of the risk management processes are being met to form an opinion on the adequacy of risk management processes. In gathering such evidence, the internal auditor might consider the following audit procedures:

   - Research and review current developments, trends, industry information related to the business conducted by the organization, and other appropriate sources of information to determine risks and exposures that may affect the organization and related control procedures used to address, monitor, and reassess those risks.

- Review corporate policies and board minutes to determine the organization's business strategies, risk management philosophy and methodology, appetite for risk, and acceptance of risks.
- Review previous risk evaluation reports issued by management, internal auditors, external auditors, and any other sources.
- Conduct interviews with line and senior management to determine business unit objectives, related risks, and management's risk mitigation and control monitoring activities.
- Assimilate information to independently evaluate the effectiveness of risk mitigation, monitoring, and communication of risks and associated control activities.
- Assess the appropriateness of reporting lines for risk monitoring activities.
- Review the adequacy and timeliness of reporting on risk management results.
- Review the completeness of management's risk analysis and actions taken to remedy issues raised by risk management processes, and suggest improvements.
- Determine the effectiveness of management's self-assessment processes through observations, direct tests of control and monitoring procedures, testing the accuracy of information used in monitoring activities, and other appropriate techniques.
- Review risk-related issues that may indicate weakness in risk management practices and, as appropriate, discuss with senior management and the board. If the auditor believes that management has accepted a level of risk that is inconsistent with the organization's risk management strategy and policies, or that is deemed unacceptable to the organization, refer to Standard 2600 and related guidance for additional direction.

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Practice Advisory 2130-1: Assessing the Adequacy of Control Processes

Primary Related Standard

2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

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1. An organization establishes and maintains effective risk management and control processes. The purpose of control processes is to support the organization in the management of risks and the achievement of its established and communicated objectives. The control processes are expected to ensure, among other things, that:

   - Financial and operational information is reliable and possesses integrity,
   - Operations are performed efficiently and achieve established objectives,
   - Assets are safeguarded, and
   - Actions and decisions of the organization are in compliance with laws, regulations, and contracts.

2. Senior management's role is to oversee the establishment, administration, and assessment of the system of risk management and control processes. Among the responsibilities of the organization's line managers is the assessment of the control processes in their respective areas. Internal auditors provide varying degrees of assurance about the effectiveness of the risk management and control processes in select activities and functions of the organization.

3. The chief audit executive (CAE) forms an overall opinion about the adequacy and effectiveness of the control processes. The expression of such an opinion by the CAE will be based on sufficient audit evidence obtained through the completion of audits and, where appropriate, reliance on the work of other assurance providers. The CAE communicates the opinion to senior management and the board.

4. The CAE develops a proposed internal audit plan to obtain sufficient evidence to evaluate the effectiveness of the control processes. The plan includes audit engagements and/or other procedures to obtain sufficient, appropriate audit evidence about all major operating units and business functions to be assessed, as well as a review of the major control processes operating across the organization. The plan should be flexible so that adjustments may be made during the year as a result of changes in management strategies, external conditions, major risk areas, or revised expectations about achieving the organization's objectives.

5. The audit plan gives special consideration to those operations most affected by recent or unexpected changes. Changes in circumstances can result, for example, from marketplace or investment conditions, acquisitions and divestitures, organizational restructuring, new systems, and new ventures.

6. In determining the expected audit coverage for the proposed audit plan, the CAE considers relevant work performed by others who provide assurances to senior management (e.g., reliance by the CAE on the work of corporate compliance officers). The CAE's audit plan also considers audit work completed by the external auditor and management's own assessments of its risk management process, controls, and quality improvement processes.

7. The CAE should evaluate the breadth of coverage of the proposed audit plan to determine whether the scope is sufficient to enable the expression of an opinion about the organization's risk management and control processes. The CAE should inform senior management and the board of any gaps in audit coverage that would prevent the expression of an opinion on all aspects of these processes.

8. A key challenge for the internal audit activity is to evaluate the effectiveness of the organization's control processes based on the aggregation of many individual assessments. Those assessments are largely gained from internal audit engagements, reviews of management's self-assessments, and other assurance providers' work. As the engagements progress, internal auditors communicate, on a timely basis, the findings to the appropriate levels of management so prompt action can be taken to correct or mitigate the consequences of discovered control discrepancies or weaknesses.

9. In evaluating the overall effectiveness of the organization's control processes, the CAE considers whether:

   - Significant discrepancies or weaknesses were discovered,
   - Corrections or improvements were made after the discoveries, and
   - The discoveries and their potential consequences lead to a conclusion that a pervasive condition exists resulting in an unacceptable level of risk.

10. The existence of a significant discrepancy or weakness does not necessarily lead to the judgment that it is pervasive and poses an unacceptable risk. The internal auditor considers the nature and extent of risk exposure, as well as the level of potential consequences in determining whether the effectiveness of the control processes are jeopardized and unacceptable risks exist.

11. The CAE's report on the organization's control processes is normally presented once a year to senior management and the board. The report states the critical role played by the control processes in the achievement of the organization's objectives. The report also describes the nature and extent of the work performed by the internal audit activity and the nature and extent of reliance on other assurance providers in formulating the opinion.

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Practice Advisory 2130.A1-1:
Information Reliability and Integrity

Primary Related Standard

2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to the risks within the organization's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with laws, regulations, and contracts.

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1. Internal auditors determine whether senior management and the board have a clear understanding that information reliability and integrity is a management responsibility. This responsibility includes all critical information of the organization regardless of how the information is stored. Information reliability and integrity includes accuracy, completeness, and security.

2. The chief audit executive (CAE) determines whether the internal audit activity possesses, or has access to, competent audit resources to evaluate information reliability and integrity and associated risk exposures. This includes both internal and external risk exposures, and exposures relating to the organization's relationships with outside entities.

3. The CAE determines whether information reliability and integrity breaches and conditions that might represent a threat to the organization will promptly be made known to senior management, the board, and the internal audit activity.

4. Internal auditors assess the effectiveness of preventive, detective, and mitigation measures against past attacks, as appropriate, and future attempts or incidents deemed likely to occur. Internal auditors determine whether the board has been appropriately informed of threats, incidents, vulnerabilities exploited, and corrective measures.

5. Internal auditors periodically assess the organization's information reliability and integrity practices and recommend, as appropriate, enhancements to, or implementation of, new controls and safeguards. Such assessments can either be conducted as separate stand-alone engagements or integrated into other audits or engagements conducted as part of the internal audit plan. The nature of the engagement will determine the most appropriate reporting process to senior management and the board.

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Practice Advisory 2130-A1-2:
Evaluating an Organization's
Privacy Framework

Primary Related Standard

2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to the risks within the organization's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with laws, regulations, and contracts.

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1. The failure to protect personal information with appropriate controls can have significant consequences for an organization. The failure could damage the reputation of individuals and/or the organization, and expose an organization to risks that include legal liability and diminished consumer and/or employee trust.

2. Privacy definitions vary widely depending upon the culture, political environment, and legislative framework of the countries in which the organization operates. Risks associated with the privacy of information encompass personal privacy (physical and psychological); privacy of space (freedom from surveillance); privacy of communication (freedom from monitoring); and privacy of information (collection, use, and disclosure of personal information by others). Personal information generally refers to information associated with a specific individual, or that has identifying characteristics that, when combined with other information, can then be associated with a specific individual. It can include any factual or subjective information — recorded or not — in any form of media. Personal information could include:

   - Name, address, identification numbers, family relationships;
   - Employee files, evaluations, comments, social status, or disciplinary actions;
   - Credit records, income, financial status, or
   - Medical status.

3. Effective control over the protection of personal information is an essential component of the governance, risk management, and control processes of an organization. The board is ultimately accountable for identifying the principal risks to the organization and implementing appropriate control processes to mitigate those risks. This includes establishing the necessary privacy framework for the organization and monitoring its implementation.

4. The internal audit activity can contribute to good governance and risk management by assessing the adequacy of management's identification of risks related to its privacy objectives and the adequacy of the controls established to mitigate those risks to an

acceptable level. The internal auditor is well positioned to evaluate the privacy framework in their organization and identify the significant risks, as well as the appropriate recommendations for mitigation.

5. The internal audit activity identifies the types and appropriateness of information gathered by the organization that is deemed personal or private, the collection methodology used, and whether the organization's use of that information is in accordance with its intended use and applicable legislation.

6. Given the highly technical and legal nature of privacy issues, the internal audit activity needs appropriate knowledge and competence to conduct an assessment of the risks and controls of the organization's privacy framework.

7. In conducting such an evaluation of the management of the organization's privacy framework, the internal auditor:

   - Considers the laws, regulations, and policies relating to privacy in the jurisdictions where the organization operates;
   - Liaisons with in-house legal counsel to determine the exact nature of laws, regulations, and other standards and practices applicable to the organization and the country/countries in which it operates;
   - Liaisons with information technology specialists to determine that information security and data protection controls are in place and regularly reviewed and assessed for appropriateness;
   - Considers the level or maturity of the organization's privacy practices. Depending upon the level, the internal auditor may have differing roles. The auditor may facilitate the development and implementation of the privacy program, evaluate management's privacy risk assessment to determine the needs and risk exposures of the organization, or provide assurance on the effectiveness of the privacy policies, practices, and controls across the organization. If the internal auditor assumes any responsibility for developing and implementing a privacy program, the internal auditor's independence will be impaired.

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Practice Advisory 2200-1:
Engagement Planning

Primary Related Standard

2200 – Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.

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1. The internal auditor plans and conducts the engagement, with supervisory review and approval. Prior to the engagement's commencement, the internal auditor prepares an engagement program that:

   - States the objectives of the engagement.
   - Identifies technical requirements, objectives, risks, processes, and transactions that are to be examined.
   - States the nature and extent of testing required.
   - Documents the internal auditor's procedures for collecting, analyzing, interpreting, and documenting information during the engagement.
   - Is modified, as appropriate, during the engagement with the approval of the chief audit executive (CAE), or his or her designee.

2. The CAE should require a level of formality and documentation (e.g., of the results of planning meetings, risk assessment procedures, level of detail in the work program, etc.) that is appropriate to the organization. Factors to consider would include:

   - Whether the work performed and/or the results of the engagement will be relied upon by others (e.g., external auditors, regulators, or management).
   - Whether the work relates to matters that may be involved in potential or current litigation.
   - The experience level of the internal audit staff and the level of direct supervision required.
   - Whether the project is staffed internally, by guest auditors, or by external service providers.
   - The project's complexity and scope.
   - The size of the internal audit activity.
   - The value of documentation (e.g., whether it will be used in subsequent years).

3. The internal auditor determines the other engagement requirements, such as the period covered and estimated completion dates. The internal auditor also considers the final engagement communication format. Planning at this stage facilitates the communication process at the engagement's completion.

4. The internal auditor informs those in management who need to know about the engagement, conducts meetings with management responsible for the activity under review, summarizes and distributes the discussions and any conclusions reached from the meetings, and retains the documentation in the engagement working papers. Topics of discussion may include:

   - Planned engagement objectives and scope of work.
   - The resources and timing of engagement work.
   - Key factors affecting business conditions and operations of the areas being reviewed, including recent changes in internal and external environment.
   - Concerns or requests from management.

5. The CAE determines how, when, and to whom engagement results will be communicated. The internal auditor documents this and communicates it to management, to the extent deemed appropriate, during the planning phase of the engagement. The internal auditor communicates to management subsequent changes that affect the timing or reporting of engagement results.

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Practice Advisory 2210-1:
Engagement Objectives

Primary Related Standard

2210 – Engagement Objectives
Objectives must be established for each engagement.

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1. Internal auditors establish engagement objectives to address the risks associated with the activity under review. For planned engagements, the objectives proceed and align to those initially identified during the risk assessment process from which the internal audit plan is derived. For unplanned engagements, the objectives are established prior to the start of the engagement and are designed to address the specific issue that prompted the engagement.

2. The risk assessment during the engagement's planning phase is used to further define the initial objectives and identify other significant areas of concern.

3. After identifying the risks, the auditor determines the procedures to be performed and the scope (nature, timing, and extent) of those procedures. Engagement procedures performed in appropriate scope are the means to derive conclusions related to the engagement objectives.

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Practice Advisory 2210.A1-1: Risk Assessment in Engagement Planning

Primary Related Standard

2210.A1 – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

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1. Internal auditors consider management's assessment of risks relevant to the activity under review. The internal auditor also considers:

   - The reliability of management's assessment of risk.
   - Management's process for monitoring, reporting, and resolving risk and control issues.
   - Management's reporting of events that exceeded the limits of the organization's risk appetite and management's response to those reports.
   - Risks in related activities relevant to the activity under review.

2. Internal auditors obtain or update background information about the activities to be reviewed to determine the impact on the engagement objectives and scope.

3. If appropriate, internal auditors conduct a survey to become familiar with the activities, risks, and controls to identify areas for engagement emphasis, and to invite comments and suggestions from engagement clients.

4. Internal auditors summarize the results from the reviews of management's assessment of risk, the background information, and any survey work. The summary includes:

   - Significant engagement issues and reasons for pursuing them in more depth.
   - Engagement objectives and procedures.
   - Methodologies to be used, such as technology-based audit and sampling techniques.
   - Potential critical control points, control deficiencies, and/or excess controls.
   - When applicable, reasons for not continuing the engagement or for significantly modifying engagement objectives.

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Practice Advisory 2230-1:
Engagement Resource Allocation

Primary Related Standard

2230 – Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

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1. Internal auditors consider the following when determining the appropriateness and sufficiency of resources:

    - The number and experience level of the internal audit staff.
    - Knowledge, skills, and other competencies of the internal audit staff when selecting internal auditors for the engagement.
    - Availability of external resources where additional knowledge and competencies are required.
    - Training needs of internal auditors as each engagement assignment serves as a basis for meeting the internal audit activity's developmental needs.

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Practice Advisory 2240-1:
Engagement Work Program

Primary Related Standard

2240 – Engagement Work Program
Internal auditors must develop and document work programs that achieve the engagement objectives.

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1. Internal auditors develop and obtain documented approval of work programs before commencing the internal audit engagement. The work program includes methodologies to be used, such as technology-based audit and sampling techniques.

2. The process of collecting, analyzing, interpreting, and documenting information is to be supervised to provide reasonable assurance that engagement objectives are met and that the internal auditor's objectivity is maintained.

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Practice Advisory 2330-1:
Documenting Information

Primary Related Standard

2330 – Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

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1. Internal auditors prepare working papers. Working papers document the information obtained, the analyses made, and the support for the conclusions and engagement results. Internal audit management reviews the prepared working papers.

2. Engagement working papers generally:

   - Aid in the planning, performance, and review of engagements.
   - Provide the principal support for engagement results.
   - Document whether engagement objectives were achieved.
   - Support the accuracy and completeness of the work performed.
   - Provide a basis for the internal audit activity's quality assurance and improvement program.
   - Facilitate third-party reviews.

3. The organization, design, and content of engagement working papers depend on the engagement's nature and objectives and the organization's needs. Engagement working papers document all aspects of the engagement process from planning to communicating results. The internal audit activity determines the media used to document and store working papers.

4. The chief audit executive establishes working paper policies for the various types of engagements performed. Standardized engagement working papers, such as questionnaires and audit programs, may improve the engagement's efficiency and facilitate the delegation of engagement work. Engagement working papers may be categorized as permanent or carry-forward engagement files that contain information of continuing importance.

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Practice Advisory 2330.A1-1: Control of Engagement Records

Primary Related Standard

2330.A1 – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

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1. Internal audit engagement records include reports, supporting documentation, review notes, and correspondence, regardless of storage media. Engagement records or working papers are the property of the organization. The internal audit activity controls engagement working papers and provides access to authorized personnel only.

2. Internal auditors may educate management and the board about access to engagement records by external parties. Policies relating to access to engagement records, handling of access requests, and procedures to be followed when an engagement warrants an investigation, need to be reviewed by the board.

3. Internal audit policies explain who in the organization is responsible for ensuring the control and security of the activity's records, which internal or external parties can be granted access to engagement records, and how requests for access to those records need to be handled. These policies will vary depending on the nature of the organization, practices followed in the industry, and access privileges established by law.

4. Management and other members of the organization may request access to all or specific engagement working papers. Such access may be necessary to substantiate or explain engagement observations and recommendations or for other business purposes. The chief audit executive (CAE) approves these requests.

5. The CAE approves access to engagement working papers by external auditors.

6. There are circumstances where parties outside the organization, other than external auditors, request access to engagement working papers and reports. Prior to releasing the documentation, the CAE obtains the approval of senior management and/or legal counsel, as appropriate.

7. Potentially, internal audit records that are not specifically protected may be accessed in legal proceedings. Legal requirements vary significantly in different jurisdictions. When there is a specific request for engagement records in relation to a legal proceeding, the CAE works closely with legal counsel in deciding what to provide.

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Practice Advisory 2330.A2-1:
Retention of Records

Primary Related Standard

2330.A2 – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

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1. Engagement record retention requirements vary among jurisdictions and legal environments.

2. The chief audit executive develops a written retention policy that meets organizational needs and legal requirements of the jurisdictions within which the organization operates.

3. The record retention policy needs to include appropriate arrangements for the retention of records related to engagements performed by external service providers.

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Practice Advisory 2340-1:
Engagement Supervision

Primary Related Standard

2340 – Engagement Supervision
Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Interpretation:
The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

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1. The chief audit executive (CAE) or designee provides appropriate engagement supervision. Supervision is a process that begins with planning and continues throughout the engagement. The process includes:

   - Ensuring designated auditors collectively possess the required knowledge, skills, and other competencies to perform the engagement.
   - Providing appropriate instructions during the planning of the engagement and approving the engagement program.
   - Ensuring the approved engagement program is completed unless changes are justified and authorized.
   - Determining engagement working papers adequately support 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.

2. The CAE is responsible for all internal audit engagements, whether performed by or for the internal audit activity, and all significant professional judgments made throughout the engagement. The CAE also adopts suitable means to ensure this responsibility is met. Suitable means include policies and procedures designed to:

   - Minimize the risk that internal auditors or others performing work for the internal audit activity make professional judgments or take other actions that are inconsistent with the CAE's professional judgment such that the engagement is impacted adversely.

- Resolve differences in professional judgment between the CAE and internal audit staff over significant issues relating to the engagement. Such means may include discussion of pertinent facts, further inquiry or research, and documentation and disposition of the differing viewpoints in engagement working papers. In instances of a difference in professional judgment over an ethical issue, suitable means may include referral of the issue to those individuals in the organization having responsibility over ethical matters.

3. All engagement working papers are reviewed to ensure they support engagement communications and necessary audit procedures are performed. Evidence of supervisory review consists of the reviewer initialing and dating each working paper after it is reviewed. Other techniques that provide evidence of supervisory review include completing an engagement working paper review checklist; preparing a memorandum specifying the nature, extent, and results of the review; or evaluating and accepting reviews within the working paper software.

4. Reviewers can make a written record (i.e., review notes) of questions arising from the review process. When clearing review notes, care needs to be taken to ensure working papers provide adequate evidence that questions raised during the review are resolved. Alternatives with respect to disposition of review notes are as follow:

   - Retain the review notes as a record of the reviewer's questions raised, the steps taken in their resolution, and the results of those steps.
   - Discard the review notes after the questions raised are resolved and the appropriate engagement working papers are amended to provide the information requested.

5. Engagement supervision also allows for training and development of staff and performance evaluation.

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Practice Advisory 2410-1:
Communication Criteria

Primary Related Standard

2410 – Criteria for Communicating

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

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1. Although the format and content of the final engagement communications varies by organization or type of engagement, they are to contain, at a minimum, the purpose, scope, and results of the engagement.

2. Final engagement communications may include background information and summaries. Background information may identify the organizational units and activities reviewed and provide explanatory information. It may also include the status of observations, conclusions, and recommendations from prior reports and an indication of whether the report covers a scheduled engagement or is responding to a request. Summaries are balanced representations of the communication's content.

3. Purpose statements describe the engagement objectives and may inform the reader why the engagement was conducted and what it was expected to achieve.

4. Scope statements identify the audited activities and may include supportive information such as time period reviewed and related activities not reviewed to delineate the boundaries of the engagement. They may describe the nature and extent of engagement work performed.

5. Results include observations, conclusions, opinions, recommendations, and action plans.

6. Observations are pertinent statements of fact. The internal auditor communicates those observations necessary to support or prevent misunderstanding of the internal auditor's conclusions and recommendations. The internal auditor may communicate less significant observations or recommendations informally.

7. Engagement observations and recommendations emerge by a process of comparing criteria (the correct state) with condition (the current state). Whether or not there is a difference, the internal auditor has a foundation on which to build the report. When conditions meet the criteria, communication of satisfactory performance may be appropriate. Observations and recommendations are based on the following attributes:

   - Criteria: The standards, measures, or expectations used in making an evaluation and/or verification (the correct state).
   - Condition: The factual evidence that the internal auditor found in the course of the examination (the current state).
   - Cause: The reason for the difference between expected and actual conditions.

- Effect: The risk or exposure the organization and/or others encounter because the condition is not consistent with the criteria (the impact of the difference). In determining the degree of risk or exposure, internal auditors consider the effect their engagement observations and recommendations may have on the organization's operations and financial statements.
- Observations and recommendations can include engagement client accomplishments, related issues, and supportive information.

8. Conclusions and opinions are the internal auditor's evaluations of the effects of the observations and recommendations on the activities reviewed. They usually put the observations and recommendations in perspective based upon their overall implications. Clearly identify any engagement conclusions in the engagement report. Conclusions may encompass the entire scope of an engagement or specific aspects. They may cover, but are not limited to, whether operating or program objectives and goals conform to those of the organization, whether the organization's objectives and goals are being met, and whether the activity under review is functioning as intended. An opinion may include an overall assessment of controls or may be limited to specific controls or aspects of the engagement.

9. The internal auditor may communicate recommendations for improvements, acknowledgments of satisfactory performance, and corrective actions. Recommendations are based on the internal auditor's observations and conclusions. They call for action to correct existing conditions or improve operations and may suggest approaches to correcting or enhancing performance as a guide for management in achieving desired results. Recommendations can be general or specific. For example, under some circumstances, the internal auditor may recommend a general course of action and specific suggestions for implementation. In other circumstances, the internal auditor may suggest further investigation or study.

10. The internal auditor may communicate engagement client accomplishments, in terms of improvements since the last engagement or the establishment of a well-controlled operation. This information may be necessary to fairly present the existing conditions and to provide perspective and balance to the engagement final communications.

11. The internal auditor may communicate the engagement client's views about the internal auditor's conclusions, opinions, or recommendations.

12. As part of the internal auditor's discussions with the engagement client, the internal auditor obtains agreement on the results of the engagement and on any necessary plan of action to improve operations. If the internal auditor and engagement client disagree about the engagement results, the engagement communications state both positions and the reasons for the disagreement. The engagement client's written comments may be included as an appendix to the engagement report, in the body of the report, or in a cover letter.

13. Certain information is not appropriate for disclosure to all report recipients because it is privileged, proprietary, or related to improper or illegal acts. Disclose such information in a separate report. Distribute the report to the board if the conditions being reported involve senior management.

14. Interim reports are written or oral and may be transmitted formally or informally. Use interim reports to communicate information that requires immediate attention, to communicate a change in engagement scope for the activity under review, or to keep management informed of engagement progress when engagements extend over a long period. The use of interim reports does not diminish or eliminate the need for a final report.

15. A signed report is issued after the engagement's completion. Summary reports highlighting engagement results are appropriate for levels of management above the engagement client and can be issued separately from or in conjunction with the final report. The term "signed" means the authorized internal auditor's name is manually or electronically signed in the report or on a cover letter. The chief audit executive determines which internal auditor is authorized to sign the report. If engagement reports are distributed by electronic means, a signed version of the report is kept on file by the internal audit activity.

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Practice Advisory 2420-1:
Quality of Communications

Primary Related Standard

2420 – Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

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1. Gather, evaluate, and summarize data and evidence with care and precision.

2. Derive and express observations, conclusions, and recommendations without prejudice, partisanship, personal interests, and the undue influence of others.

3. Improve clarity by avoiding unnecessary technical language and providing all significant and relevant information in context.

4. Develop communications with the objective of making each element meaningful but succinct.

5. Adopt a useful, positive, and well-meaning content and tone that focuses on the organization's objectives.

6. Ensure communication is consistent with the organization's style and culture.

7. Plan the timing of the presentation of engagement results to avoid undue delay.

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Practice Advisory 2440-1: Disseminating Results

Primary Related Standard

2440 – Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive or designee reviews and approves the final engagement communication before issuance and decides to whom and how it will be disseminated.

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1. Internal auditors discuss conclusions and recommendations with appropriate levels of management before the chief audit executive (CAE) issues the final engagement communications. This is usually accomplished during the course of the engagement and/or at post-engagement meetings (i.e., exit meetings).

2. Another technique is for the management of the audited activity to review draft engagement issues, observations, and recommendations. These discussions and reviews help avoid misunderstandings or misinterpretations of fact by providing the opportunity for the engagement client to clarify specific items and express views about the observations, conclusions, and recommendations.

3. The level of participants in the discussions and reviews vary by organization and nature of the report; they generally include those individuals who are knowledgeable of detailed operations and those who can authorize the implementation of corrective action.

4. The CAE distributes the final engagement communication to the management of the audited activity and to those members of the organization who can ensure engagement results are given due consideration and take corrective action or ensure that corrective action is taken. Where appropriate, the CAE may send a summary communication to higher-level members in the organization. Where required by the internal audit charter or organizational policy, the CAE also communicates to other interested or affected parties such as external auditors and the board.

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Practice Advisory 2500-1:
Monitoring Progress

Primary Related Standard

2500 – Monitoring Progress
The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

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1. To effectively monitor the disposition of results, the chief audit executive (CAE) establishes procedures to include:

   - The timeframe within which management's response to the engagement observations and recommendations is required.
   - Evaluation of management's response.
   - Verification of the response (if appropriate).
   - Performance of a follow-up engagement (if appropriate).
   - A communications process that escalates unsatisfactory responses/actions, including the assumption of risk, to the appropriate levels of senior management or the board.

2. If certain reported observations and recommendations are significant enough to require immediate action by management or the board, the internal audit activity monitors actions taken until the observation is corrected or the recommendation implemented.

3. The internal audit activity may effectively monitor progress by:

   - Addressing engagement observations and recommendations to appropriate levels of management responsible for taking action.
   - Receiving and evaluating management responses and proposed action plan to engagement observations and recommendations during the engagement or within a reasonable time period after the engagement results are communicated. Responses are more useful if they include sufficient information for the CAE to evaluate the adequacy and timeliness of proposed actions.
   - Receiving periodic updates from management to evaluate the status of its efforts to correct observations and/or implement recommendations.
   - Receiving and evaluating information from other organizational units assigned responsibility for follow-up or corrective actions.
   - Reporting to senior management and/or the board on the status of responses to engagement observations and recommendations.

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Practice Advisory 2500.A1-1:
Follow-up Process

Primary Related Standard

2500.A1 – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

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1. Internal auditors determine whether management has taken action or implemented the recommendation. The internal auditor determines whether the desired results were achieved or if senior management or the board has assumed the risk of not taking action or implementing the recommendation.

2. Follow-up is a process by which internal auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations, including those made by external auditors and others. This process also includes determining whether senior management and/or the board have assumed the risk of not taking corrective action on reported observations.

3. The internal audit activity's charter should define the responsibility for follow-up. The chief audit executive (CAE) determines the nature, timing, and extent of follow-up, considering the following factors:

   - Significance of the reported observation or recommendation.
   - Degree of effort and cost needed to correct the reported condition.
   - Impact that may result should the corrective action fail.
   - Complexity of the corrective action.
   - Time period involved.

4. The CAE is responsible for scheduling follow-up activities as part of developing engagement work schedules. Scheduling of follow-up is based on the risk and exposure involved, as well as the degree of difficulty and the significance of timing in implementing corrective action.

5. Where the CAE judges that management's oral or written response indicates that action taken is sufficient when weighed against the relative importance of the observation or recommendation, internal auditors may follow up as part of the next engagement.

6. Internal auditors ascertain whether actions taken on observations and recommendations remedy the underlying conditions. Follow-up activities should be appropriately documented.

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