

**THE  
FURTHER  
EDUCATION  
FUNDING  
COUNCIL**

**Guidance Note  
on the College  
Internal Audit  
Service**

**Supplement B  
to Audit Code  
of Practice**

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# GUIDANCE NOTE ON THE COLLEGE INTERNAL AUDIT SERVICE

## Introduction

1 This guidance note supplements the audit code of practice. It gives guidance and good practice, to assist colleges and internal audit services in meeting the requirements of the code. Guidance is given under the headings:

- internal audit
- provision of service
- standards
- irregularities, including fraud and corruption
- change of college internal audit service
- Council access to the college internal audit service
- value-for-money reviews
- self-assessment.

## Internal Audit

2 Internal audit is common in many private sector organisations with a concern for effective management, and in almost the whole of the public sector, where it is seen as an indispensable management control. The Council, while requiring internal audit as a condition of funding, wishes to encourage colleges to see internal audit as an opportunity to contribute towards effective college management. Internal audit can help to improve systems of internal control continuously. The Committee of Public Accounts (PAC) has emphasised the need for effective internal audit in the public sector.

3 There is no charter for internal audit common to all organisations where this function is present, although well-organised and managed functions have regard for good practice in the internal audit profession. For colleges, and for other public sector organisations, this good practice is recognised in the standards for internal audit promulgated by HM Treasury. The standards and guidance on good practice in internal audit are given in the *Government Internal Audit Manual* (GIAM). Guidance is also given in the auditing guideline: *Guidance for Internal Auditors*.

4 The standards and good practice also recognise the differences between the internal audit of public bodies and internal audit in the private sector. These differences include the need for an internal audit service in the public sector also to be concerned with propriety and regularity requirements and the arrangements for securing economy, efficiency and effectiveness. While most internal audit functions in the private sector would indeed consider these issues, there is no requirement for them to do so and the scope of their work is a matter for the consideration of those organisations. Definitions relating to internal audit are included in appendix 1 to this guidance note.

## Provision of Service

5 The Council takes a close interest in the adequacy of internal audit provision at colleges. The detailed actions the Council requires of colleges in appointing an internal audit service are set out in the code. This supplement considers those arrangements specific to the different options for an internal audit service, which do not apply to external auditors. Further details relating to the selection of an internal audit service and external auditor are included in the appendix to supplement D, the guidance note on areas common to the college internal audit service and external auditor.

6 There are a variety of ways of procuring an internal audit service which would meet the requirements of the financial memorandum. Most colleges have chosen an internal audit service by:

- contracting with an accountancy, audit or consultancy firm which is known to provide effective internal audit services, but is not the external auditor of the college
- contracting with the accountancy firm which undertakes the college's external audit
- contracting with an internal audit service from within an organisation such as a local authority.

7 Each college must have an effective internal audit service which is distinct from the external auditor and from the management of the college. Any college, which makes the second choice above, should be able to satisfy the Council's audit service that the separate roles of internal and external audit are clearly defined and that both sets of reporting

requirements are fully met. The provider or team should be qualified and experienced in internal audit work; staff should have the skills and experience to enable them to meet the GIAM standards. The audit manager should have experience in managing internal audit work, preferably in the college sector. From the Council's experience of work in the first cycle of visits, in an effective internal audit team, qualified staff would be expected to account for approximately 40 per cent of the total audit staff, although this is not mandatory. The mix of audit staff required may be broadly determined by the size and complexity of the college. Experience of the Council's audit service's first five years of college internal audit reviews is that:

- internal audit coverage should not be limited to the type of assessment of systems and controls necessary to form an opinion on financial statements
- to ensure the internal audit service is distinct from the external auditor, the staffing of the internal audit service and external auditor should be separate. If this is not possible or appropriate, it may be acceptable for the same person to be head of the internal audit service and the external auditor, provided they can demonstrate that independence is being maintained
- personnel engaged on internal audit work should have relevant skills and experience in the work. Colleges should ensure that individuals have internal audit skills and experience.

8 Two other methods may be considered. Firstly, colleges may wish to appoint a head of internal audit and an audit team to the staff of the college, as necessary. Such an 'in-house' team may also be supplemented from time to time with external consultants or contractors, under the direction of the head of internal audit, to meet any peaks in workload or provide specialist skills.

9 For most colleges, size and cost factors may discourage in-house provision. Identification and recruitment of suitable individuals may be difficult to justify in terms of the cost, except for the largest colleges. An in-house team also presents limited opportunities for advancement or development of staff, particularly as they should not assume executive roles within the college or take part in

special projects that might compromise their independence or objectivity.

10 Alternatively, colleges may join an internal audit consortium with other colleges or other organisations, or form a new one. This has been successful in the higher education sector. Such an arrangement addresses some of the limitations of an in-house team but, unless large, might also offer limited skills and experience to the college.

11 The provisions in the code and related guidance notes relate to all types of internal audit provision.

### **Standards**

12 The standards which have been promulgated by HM Treasury are attached as annex B to the code, and are under headings of scope, independence, planning, audit approach, controlling, reporting, due professional care, relationships and staffing and training. These are discussed as appropriate in paragraphs 13 to 43 below.

#### **Scope**

13 A college's governing body must ensure that it has a sound system of internal control. These are the systems of controls established by management which help to ensure:

- that the college's objectives are achieved. All colleges express their objectives as part of their strategic plans and should have in place a system of internal control to ensure achievement of all of these objectives
- that the activities of the college are carried out in an orderly and efficient manner and resources are used in an economic, efficient and effective manner
- compliance with legislation, the financial memorandum between the college and the Council, the college's instrument and articles of government (or equivalent), policies, regulations and procedures
- the college's assets and interests are safeguarded from losses of all kinds including those arising from fraud, irregularity or corruption
- the integrity and reliability of information and data.

14 The work of the college's internal audit service must include the whole system of internal control of the college including all its operations, resources, personnel, services and responsibilities to other bodies. It must cover all activities associated with the college and be extended to those that are not funded by the Council. Coverage will include activities delivered by college companies, joint ventures or through collaborative provision. The internal audit service should not perform academic audit. However, they may review whether a college has adequate arrangements in place to deliver academic audit.

15 In its coverage of the whole system of internal control, the internal audit service should audit both those systems concerned with financial transaction processing, such as payroll, payments or fee income systems and non-financial systems. HM Treasury guidance on good practice on internal audit identifies five key features of control in organisations:

- the definition and establishment of objectives, standards and procedures
- clear definition of responsibilities for management and operation of activities
- measurements of inputs, outputs and performance in relation to objectives, taking corrective action where appropriate
- critical review of objectives, operations, outputs and value for money
- reporting of financial and non-financial results and performance.

16 In considering internal control in practice, HM Treasury guidance gives a broad hierarchy of control. In this hierarchy, planning, written guidance, organising, monitoring of performance and evaluation are the five highest levels of control. Accounting controls, authorisation, documentation, completeness and accuracy and physical controls are low in the hierarchy. These latter controls are those most closely identified with systems concerned with financial transaction processing within a college.

17 While internal audit work on financial transaction processing systems is important in providing assurance on the college's stability and financial probity, such systems are not directly connected to its core business of education. They should be accorded an appropriate place in any

long-term internal audit plans for a college. The college internal audit service should devote sufficient resources to identifying and auditing systems that achieve all of the objectives of the college, whether these are overtly financial or not.

18 The college internal audit service should have formal terms of reference agreed by the governing body on the recommendation of the audit committee. These terms must allow it to comply with HM Treasury standards and meet the requirements of GIAM. Model terms of reference that meet these requirements are provided at appendix 2 to this supplement. The whole of these terms of reference should form part of any letter of engagement for the provision of the college's internal audit service. The letter should cover the period of the contract which should be stated. This contract should be approved and signed by the chairman of the governing body or another governor to whom this power has been formally delegated by minuted resolution of the governing body.

19 The scope and objectives of the college internal audit service are often unfamiliar to colleges and their governing bodies. Equally, there is limited awareness that the college internal audit service is an integral part of the whole system of internal control of the college with a scope covering all activities of the college. To increase the understanding of the internal audit service, the terms of reference for an internal audit service, irrespective of the particular service provider at the time, should be incorporated into the college's financial regulations, either in the main body or as an annex. The amended financial regulations should be approved by minuted resolution of the governing body.

20 The role of internal audit is to provide management and the governing body, through an annual report, with an objective assessment of whether systems and controls are working properly. It is a key part of a college's internal control system because it assesses and evaluates the adequacy and effectiveness of internal control. The governing body can then know the extent to which they can rely on the whole system of internal control and individual college managers can know how reliable are the systems and controls for which they are responsible. This assessment should be accorded by the governing body the same significance as the report of the external auditor on the annual statement of accounts. The governing body should

have available the internal audit annual report at the time of its consideration and acceptance of the external auditor's report, and the signing of its responsibility statement.

21 The college internal audit service's annual report should be addressed to the governing body through the audit committee, and should include internal audit's assessment of the adequacy and effectiveness of the whole system of internal control and the extent to which the governors can rely on it.

#### Independence

22 To be effective the college internal audit service should have sufficient status and be given the respect and support of the governing body, audit committee and senior management within the college. The head of internal audit must have direct access to the principal and to the governing body, normally through the chairman of the audit committee. The head of internal audit may formally request the chairman of the audit committee to convene an audit committee meeting. As part of its terms of reference, the college internal audit service must also have unrestricted access to all documents, records, assets, personnel and premises of the college, its companies and to relevant documents of collaborative partners, and be authorised to obtain such information and explanations as considered necessary by the internal audit service.

23 Independence is fundamental to the effectiveness of the college internal audit service. The internal audit service should prepare an audit needs assessment as the basis for strategic and annual audit plans, prepared in consultation with senior management and approved by the governing body, on the recommendation of the audit committee. Where the college internal audit service and the college are unable to agree on the content of the plans, college management or the head of internal audit should notify the governing body. If the college internal audit service is called upon to carry out specific investigations and additional work, whether audit or otherwise, such reviews must not compromise its objectivity, independence or the achievement of the audit plan when forming its audit opinion.

24 The college internal audit service must be separate from college management, even if provided in-house, and without any executive, management or operational responsibilities outside audit. This independence should be considered in awarding the

internal audit service any work additional to its internal audit plan. Additional work, which does not contribute to the internal auditors' statement of assurance on the whole system of internal control, should normally be carried out by a separate team not involved with the internal audit of the college. One exception to this would be an investigation into irregularities, including fraud and corruption, commissioned by the audit committee. For day-to-day administrative purposes, the college internal audit service will liaise with a member of the senior management team within the college.

#### Planning

25 The work of the internal audit service should be planned at each level of operation and be based on the terms of reference approved by the governing body.

26 Each audit cycle should start with a comprehensive analysis of the college's whole system of internal control that achieves all its objectives. A suitable statement of the college's strategic and operational objectives is its strategic plan. The analysis of systems and the assessment of the risk associated with those systems should lead to the college internal audit service's assessment of the college's audit need. This enables the college internal audit service to see systems in the proper perspective of their relative risk and materiality and the relationship between them. The college internal audit service's understanding of the objectives and systems of the college should be discussed with the management of the college. This audit needs assessment should form the basis for strategic and annual audit plans. The audit needs assessment should be unconstrained by existing resources.

27 The documentation of the audit needs assessment and audit plans should be submitted to the governing body so that all governors are fully aware of the basis of the assurance they will receive from the college internal audit service.

28 The governing body should decide, on the advice of the audit committee, what level of resources should then be provided. Where the college's internal audit service and governing body are unable to agree on a minimum level of resources to provide valid assurance, or where the level of resources approved by the governing body is in the opinion of the college internal audit service insufficient, the internal audit service should formally notify the governing body of this at the

time. The governing body must notify the Council's chief auditor of such a disagreement. As a last resort, the college internal audit service should consider withdrawing from the engagement rather than provide a service with inadequate resources in breach of their letter of engagement. Any notice period agreed by internal audit and the college should be observed.

29 Once the internal audit plans have been agreed by the governing body, the college internal audit service and college management are required to ensure that these plans are completed. This requires early agreement of the plans, and agreement between the college and its internal audit service as to the timing of individual assignments. Where an assignment is delayed at the request of the college or its internal audit service, new arrangements should be made to carry out the assignment later in the same year. Assignments should not be cancelled, deferred to a later year or reduced in their scope and objectives without the agreement of the audit committee and, if appropriate, that of the governing body. The only valid reasons for such alterations are likely to be major changes to the systems being audited that could not have been foreseen, or significant incidence of error in the systems. The Council's audit service, in reviewing the completion of internal audit plans, always assumes that the plans identify coverage that will permit a valid annual statement of assurance by the college internal audit service. Work that represents cover over and above this minimum should have been identified as such in the internal audit plans approved by the governing body. Where the level of work performed results in the audit need not being met, the Council's audit service would be unable to rely on the work of the internal audit service.

30 There is no simple answer to the correct level of internal audit resources needed for any college. The level of resources will depend upon factors including:

- the extent of budgetary delegation and the degree of decentralisation of the operation of systems
- the number of sites at which the college operates
- the complexity and variety of its educational provision, including college companies and collaborative provision

- the turnover of the college
- the number of funding bodies the college deals with
- previous audit experience of the adequacy of systems, their newness and degree of recent, ongoing or planned change.

31 The Council may from time to time offer benchmarks for the level of provision of an internal audit service. The Council's experience strongly suggests that, even for the smallest colleges, there is an absolute minimum level of internal audit resources that is likely to lead to a reliable internal audit statement of assurance. For these smallest colleges, the Council considers that budgets of under 15 to 20 days have not delivered a valid annual assurance on the whole system of internal control, even if the work on individual assignments has been of value. The audit needs assessment will reflect the various factors which influence the number of days required. The level of resources needed is likely to increase according to the value of the college's turnover and the complexity of its operations. There is little evidence of any but the largest colleges reaping significant benefits from economies of scale.

32 Further guidance on internal audit planning is provided at appendix 3 to this supplement.

#### Approach

33 The college internal audit service should adopt a systems-based approach to evaluate the adequacy and effectiveness of the whole system of internal control at the college. 'Systems audit' is defined at appendix 1 to this supplement.

34 A system is a set of related activities designed to operate together to achieve a planned objective. The internal audit service should therefore identify the objectives of systems. Where management's stated objectives are inadequate to characterise systems, the college internal audit service should establish appropriate objectives in discussion with management.

35 The primary objective of a systems audit should be to evaluate the extent to which the controls in the system may be relied upon to ensure the objectives of the system are met. The work of the college internal audit service in carrying out a systems audit should include identifying and evaluating management's objectives for the system under review. This evaluation, which should include testing of the operation of controls, should

lead to conclusions on the adequacy of control and, if necessary, recommendations for improvement.

36 Systems auditing should form at least 75 per cent of the total internal audit annual planned resource including planning, management and control, and this percentage should be observed across all levels of internal audit personnel. This is so that sufficient work is performed to enable the college internal audit service to provide an adequate annual statement of assurance. Work other than systems auditing contributes little to the annual assurance provided by the internal audit service. This is also true of substantive testing, which is concerned with outputs rather than the adequacy of controls and therefore has a limited role to play in systems auditing. However, it may sometimes be used as a means of demonstrating the existence or seriousness of weaknesses when the auditor is unable to convince management by any other means. It is suited to external audit work where it is used extensively. Substantive testing is resource intensive and should not normally be programmed into internal audit work plans.

37 A systems-based approach enables the college internal audit service to reach the conclusions necessary to give assurance on a system. Due regard should be paid by the internal audit service to the extent to which the governing body could be exposed by any shortcomings in the system under review. The degree of control should be related to the risks involved but it is management's role to exercise judgement in establishing the balance between risk and control.

38 Further guidance on the internal audit approach is given at appendix 4 to this supplement.

#### Reporting

39 The findings and recommendations arising from each audit should be promptly reported to management and followed up. The reporting arrangements adopted should not compromise the independence or objectivity of the college internal audit service. The normal reporting arrangements at a working level should be that the head of internal audit reports:

- initially to the college management responsible for the system being reported upon, then to the principal
- to the audit committee with the agreed report on the system.

40 The head of internal audit must also have the right to report to the principal and to the governing body through the audit committee. This right might be exercised when significant internal audit recommendations are not accepted, or if accepted, are not acted upon.

41 Much of the useful work of the college internal audit service will be through reports produced on each assignment. These assignments might have involved the review of several distinct systems within the annual audit plan. Assignment reports should:

- be issued to college management in good time, to encourage prompt attention to deficiencies and should include recommendations to address these
- be concise
- include clear, unequivocal assurance as to whether the internal controls in each system reported upon are adequate and are operating effectively
- include priorities for the recommendations along with the college's responses, the date by which action should be taken where appropriate, and the person responsible for that action, to allow the audit committee to understand and monitor what action is to be taken to address weaknesses.

42 When the internal audit service produces its annual report on the whole system of internal control at the college, it should be noted that assurance can never be absolute. The internal audit service can only provide to the governing body reasonable assurance that there are no major weaknesses in the whole system of internal control. The report should be addressed to the governing body through the audit committee and be considered by the audit committee. A copy of the internal auditor's annual report, together with the college's response, must be provided by colleges to the Council's chief auditor. As a minimum it should include:

- a statement of the extent to which the governing body can rely on the whole system of internal control of the college



- an analysis of common or significant weaknesses arising
- a comparison of the college internal audit service's activity during the year with that planned, placed in the context of internal audit need
- details of any major audit findings where action appears to be desirable but has not been taken and which thus needs to be brought to the governing body's attention
- the extent of achievement of any objectives (including targeted performance indicators) which may have been agreed for the internal audit service.

43 Further guidance, and model wordings for assurance in internal audit reports are at appendix 5 to this supplement for internal audit assignment reports, and at appendix 6 to this supplement for the internal audit annual report.

#### **Irregularities, Including Fraud and Corruption**

44 College management has responsibility for the prevention, detection and investigation of irregularities, including fraud and corruption. The internal audit service assists by examining and evaluating the adequacy and effectiveness of action taken to fulfil this obligation. The internal audit service should have sufficient knowledge of fraud and its characteristics, the techniques used to commit fraud and the types of fraud associated with the activities audited.

45 The work of the college internal audit service should be planned to take into account consideration of fraud, theft and corruption and risk assessment especially in those systems where a high potential for fraud exists. Systems should be tested to ensure that the risk of fraud, both internal and external, is minimised and auditors should be alert to any control weaknesses that allow fraud to occur.

46 The college internal audit service may be best placed to perform any investigations which may be required. This is provided that:

- the independence of the internal audit service is not compromised
- it has the appropriate skills and knowledge
- it has sufficient resources without detriment to its core work of providing assurance on the whole system of internal

control. Investigations should not be performed at the expense of planned internal audit work.

#### **Change of College Internal Audit Service**

47 The internal audit working papers should be the property of the college. Colleges should make arrangements for relevant audit documentation to be passed to the incoming auditors in the event of a change in the provision of the service. This avoids costly repetition of work and eases transition. The incoming internal audit service may find it useful if colleges have arrangements for them to meet with the outgoing auditors in addition to the transfer of documentation. This should be included in the terms of reference for internal audit and is included in the model terms of reference at paragraph 23 of appendix 2 to this supplement.

#### **Council Access to the College Internal Audit Service**

48 The Council seeks assurance as to the state of the whole system of internal control at colleges through reliance on the work of colleges' internal audit services. An opinion on whether reliance can be placed on the work of internal audit is formed by the Council's audit service, following a review of the internal audit service's work at the college. Amongst the tasks necessary towards forming this opinion, the audit service examines internal audit working papers, interviews key members of staff from the college internal audit service and seeks the views of college management. The Council would anticipate requiring not more than one day's contact time with a college internal audit service every three years. This time will be greater where the Council finds that the internal audit work is not of a sufficient standard for reliance to be placed upon it, and further work is necessary. This liaison should be anticipated by internal audit and should not normally give rise to additional fees. The Institute of Chartered Accountants in England and Wales (ICAEW) have indicated that access to audit working papers should be covered by hold harmless letters.

#### **Value-for-Money Reviews**

49 The responsibility for achieving value for money (VFM) lies with management. Management should institute appropriate arrangements for securing VFM and for monitoring its achievement in the operations it manages. One way of doing this is through special reviews by a number of possible

review agencies, including the college internal audit service. It should be noted that internal audit staff may not have the expertise to perform VFM reviews. Independent specialists may be engaged to work under the direction of, alongside, or as an alternative to, internal auditors. The emphasis of such work should be to help management meet its responsibility for securing economic, efficient and effective use of resources. It is not mandatory for the college to commission VFM work.

50 The college internal audit service has two roles in relation to VFM:

- as an integral part of its responsibility to evaluate the whole system of internal control, internal audit examines and evaluates the controls established by management to secure VFM
- auditors may conduct, or participate in, special VFM reviews.

51 It is important that the independence of the internal auditor is not compromised as a result of VFM reviews. Internal audit service management can minimise the effects of possible compromise to internal audit objectivity by ensuring, wherever possible, that staff do not audit areas where they have been involved in VFM reviews.

52 In participating in VFM reviews, the college internal audit service may reap considerable benefits in terms of value to the college. It is essential to avoid the use of the internal audit service's resources on this work to the extent that it cannot give a systems-audit-based assurance on the whole system of internal control. Also, the internal audit service should avoid assuming an executive role. More guidance on VFM reviews is given in appendix 7 to this supplement.

### **Self-assessment**

53 Appendix 8 to this supplement is a checklist which is offered to colleges to assist them in assessing their internal audit arrangements. It is not part of the audit framework.

## DEFINITIONS RELATING TO INTERNAL AUDIT

The following definitions are given in HM Treasury's *Government Internal Audit Manual* (GIAM).

Modifications used to tailor their applicability to colleges are shown in square brackets [thus].

1 **Internal audit** is an independent appraisal function within an organisation which operates as a service to management and to the organisation by measuring and evaluating the effectiveness of the whole system of internal control.

2 The **internal control system** comprises the whole network of systems established in an organisation to provide reasonable assurance that organisational objectives will be achieved, with particular reference to:

- the effectiveness of operation
- the economical and efficient use of resources
- compliance with applicable policies, procedures, laws and regulations
- the safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption
- the integrity and reliability of information, accounts and data.

3 The **assurance** provided by internal audit is the comfort which the [governing body] can derive from the head of internal audit's professional opinion on the adequacy and effectiveness of the whole system of internal control and the extent to which it can be relied upon.

4 **Systems audit** is the structured analysis and evaluation of the [whole system of internal control] of a [college's] business in relation to the objectives of the [college]. It enables the internal audit service to reach the conclusions which are necessary to support the head of internal audit's assurance to the [governing body] and to provide managers with professional opinions and recommendations on those parts of the [whole system of internal control] for which they are responsible.

## MODEL TERMS OF REFERENCE FOR THE COLLEGE INTERNAL AUDIT SERVICE

1 The role of the internal audit service is to provide management with an objective assessment of whether systems and controls are working properly to achieve management's objectives. It is a key part of a college's whole system of internal control because it measures and evaluates the adequacy and effectiveness of other controls so that:

- the governing body and senior management can know the extent to which they can rely on the whole system of internal control of the college
- individual managers can assure themselves that the systems and controls for which they are responsible are reliable.

### Appointment

2 The internal audit service is appointed by the governing body for a term of [ ] years commencing [ ]. This is subject to satisfactory annual review by the audit committee and recommendation to the governing body. Remuneration shall be fixed by the governing body on the advice of the audit committee. A new competition for the selection of the internal audit service must be held at least every five years.

### Scope

3 The work of the internal audit service must embrace the whole system of internal control of the college including all its activities and all its locations, funded from whatever source. The internal audit service shall consider the adequacy of systems and controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It shall seek to confirm that management have taken the necessary steps to achieve these objectives.

4 The whole system of internal control of the college examined by the internal audit service shall be construed to mean all those systems that secure achievement of the college's entire set of strategic objectives, as expressed in its strategic plan.

5 The systems of control subject to the internal audit service's work shall include those systems of control operated by:

- all college subsidiary or associated companies

- the college's partners in collaborative provision
- contractors of the college that provide any service that handles or processes college finances or management information in any form.

6 It is not within the remit of the internal audit service to question the appropriateness of policy decisions. However, the internal audit service is required to examine the management arrangements of the college by which such decisions are made, monitored and reviewed.

7 [This paragraph may be included should the governing body agree.] The internal audit service may also conduct any special reviews requested by the governing body, audit committee or principal, provided such reviews do not compromise its objectivity, independence or achievement of its plan to audit the whole system of internal control. Such special reviews should be approved by the governing body in advance of their performance, on the advice of the audit committee.

### Responsibilities

8 The person leading the internal audit service is required to give an annual opinion to the governing body, through the audit committee, on the adequacy and effectiveness of the college's system of internal control, and the extent to which they can rely on it. The wording of this statement of assurance should be in accordance with the model assurances at appendix 6 to this supplement.

9 In order to provide the required statement of assurance, the internal audit service will undertake a programme of work over a cycle authorised by the governing body on the advice of the audit committee, to achieve the following objectives:

- to review and appraise the soundness, adequacy and application of the whole system of internal control
- to ascertain the extent to which the whole system of internal control ensures compliance with established policies and procedures
- to ascertain the extent to which the assets and interests entrusted to, or funded by, the college are properly controlled and safeguarded from losses of all kinds

- to ascertain that management information is reliable as a basis for the production of financial, statistical and other returns
- to ascertain the integrity and reliability of information provided to management including that which is used in decision-making
- to ascertain that systems of control are laid down and operate to achieve the most economic, efficient and effective use of resources.

### Standards and Approach

10 The internal audit service's work shall be performed in accordance with the requirements of the Council as detailed in the Council's audit code of practice and its supplements and the standards for internal audit promulgated by HM Treasury. The work shall comply in all material respects with the *Government Internal Audit Manual* and have regard to the auditing guideline *Guidance for Internal Auditors*.

11 In achieving its objectives, the internal audit service should:

- identify all systems and controls on which management proposes to rely and plan to review them over a cycle
- evaluate such systems and controls, identify inappropriate or inadequate controls, and recommend improvements in procedures or practices
- ascertain that systems and controls have been established and are working to achieve the most economic, efficient and effective use of resources
- draw attention to any apparently uneconomical or otherwise unsatisfactory results flowing from management's decisions, practices or policies
- liaise with the external auditor, and with the Council's audit service.

12 The Council's audit service seeks to place reliance upon the work of the college's internal audit service. Liaison is necessary for the Council's audit service to form this opinion and should not normally give rise to additional fees.

### Independence

13 The internal audit service has no executive role, nor does it have any responsibility for the development, implementation or operation of systems. It may provide advice, however, on control and related matters, subject to the need to maintain objectivity, and resource constraints.

14 The audit committee shall advise the governing body on all matters concerning internal control. Within the college, responsibility for the whole system of internal control rests fully with management, which should ensure that appropriate and adequate arrangements exist without reliance on the college internal audit service. In order to preserve the objectivity and impartiality of the internal audit service's professional judgement, responsibility for implementing audit recommendations rests with management.

### Access

15 The internal audit service has rights of access to all the college's personnel, premises, documents, records, information, assets, its companies and collaborative partners, and is authorised to obtain such information and explanations which the internal audit service considers necessary to fulfil its responsibilities.

### Reporting

16 The head of internal audit has right of direct access to the chairman of the audit committee and the principal. He or she should submit an audit needs assessment, a strategic audit plan, an annual audit plan and an annual report to the governing body for approval, following consultation with the principal and the college senior postholder with responsibility for overseeing the internal audit service and after consideration by the audit committee.

17 The person leading the internal audit service is accountable to the principal and the governing body through the audit committee for the performance of the service. The internal audit service also reports audit results to the heads of department or services within the college. The person leading the internal audit service shall keep the principal informed of audit results and draw the attention of the audit committee to significant findings or recommendations.

18 The internal audit service shall produce its reports, usually within one month of completion of each audit, giving an opinion on the area reviewed and making recommendations where appropriate. Recommendations should be prioritised. All reports should be provided to the principal and should be copied to the audit committee. Heads of departments or services shall be required to respond to each audit report, usually within one month of issue. In their response, they should state, for agreed recommendations, their proposed action, the person responsible for implementation and a date by which action will be completed. Material recommendations will usually be followed up some six to 12 months later. In addition, the audit committee shall monitor the implementation of audit recommendations by management.

19 The internal audit service's annual report to the governing body should include:

- a statement of the extent to which the governing body can rely on the whole system of internal control of the college
- an analysis of common or significant weaknesses arising
- a comparison of the internal audit service's activity during the year with that planned, placed in the context of internal audit need
- details of any major audit findings where action appears to be desirable but has not been taken and which thus need to be brought to the attention of the governing body
- the extent of achievement of any objectives (including targeted performance indicators) which may have been agreed for the internal audit service.

20 A copy of the annual report should be sent without delay to the Council's chief auditor by the college, after it has been received by the governing body on the advice of the college audit committee. Copies of other audit reports and responses to them should not routinely be sent to the Council's chief auditor but the Council's audit service may request them.

### **Irregularities, Including Fraud and Corruption**

21 The college internal audit service should report to the Council's chief executive, copied to the chief auditor, without delay, serious weaknesses, significant frauds, major accounting and other control breakdowns.

### **Liaison**

22 The internal audit service shall liaise with the external auditor and the Council's audit service to enhance the level of service it provides to the management of the college.

### **Ownership of Papers**

23 The internal audit working papers are the property of the college. In the event of a change of internal audit service provider, the outgoing internal audit service provider will surrender all audit working papers which demonstrate compliance with the GIAM standards. Arrangements should be made for the outgoing internal audit provider to meet the incoming internal audit service provider where appropriate.

### **Termination of Appointment**

24 The governing body may, by resolution, remove the college's internal audit service before its term of office expires, notwithstanding any agreement between the internal audit service and the college.

## INTERNAL AUDIT PLANNING

1 The work of the internal audit service should be comprehensively planned. Plans should be prepared by the internal audit service, for approval by the governing body on the advice of the audit committee.

### Plans

2 Systematic planning assists the internal audit service to achieve its objectives. It also assists those with responsibility for approving the plans, if planning has been undertaken systematically. Plans should be based on the terms of reference for the internal audit service (see appendix 2 of this supplement) approved by the governing body. They should provide for coverage of the whole system of control of the college that secures achievement of all of the strategic objectives as expressed in the college strategic plan. To be adequate, plans should:

- identify the personnel and other resources needed and reconcile these with available resources
- where needs differ from resources, give the internal audit service's advice on the effect this will have on the annual statement of assurance
- be agreed between the internal audit service and the audit committee prior to approval by the governing body; the length of the audit cycle and hence the strategic audit plans should be agreed
- be recorded in writing
- assist in the direction and control of work by identifying critical areas, setting target dates, allocating resources and providing a basis against which progress can be monitored.

3 The emphasis of audit plans will change from time to time. This may result from, for example, a change in the provider of the service, college reorganisation or changes to college priorities. Plans must be sufficiently flexible to allow a prompt response to unscheduled work.

4 Audit plans should be based upon an understanding of the college and the way it operates. Operations of high risk and any known problem areas should be clearly identified and the emphasis of the audit plan directed accordingly.

5 All plans should be achievable and promote the efficient use of resources. They should be based on the priorities indicated in the audit needs assessment. Their precise nature will depend upon the complexity and size of the college.

### Assessment of Audit Need

6 An assessment of audit need will enable the audit committee and governing body to judge the effect of any decision they may make regarding audit scope or resources. It enables the internal audit service to see systems in the proper perspective of their relative risk and materiality, their position within the organisation and the relationships between them. The audit needs of a college should be determined without regard to constraints such as the time and resources which the college may make available.

7 The audit needs assessment process should involve defining audit needs based on the internal audit service's terms of reference. Principal steps involve:

- identifying all areas of work by system and subsystem. Systems will usually comprise several related subsystems grouped as a single system, which should be suitable as the subject of an audit assignment
- seeking senior management's views as to the risk attached to particular systems or aspects of the environment in which they operate
- defining the scope, objectives and principal tasks of the audit of each system
- determining a cycle within which all systems will have been audited at least once
- assigning a period within which it is desirable that each system should be reviewed
- estimating the resources required to meet audit need.

8 In assessing risk related to individual systems, the internal audit service will need to consider a range of factors including:

- materiality to the college's business
- volume of transactions
- results of previous audit work
- inherent risk
- nature of the transactions.

9 The basis of a cyclical audit of systems is that it does not attempt to cover all systems in one year. Equally, the audit needs assessment should not assume that a 'core' of systems, or 'key' systems, require audit every year. Annual coverage of an unvarying and narrow range of systems is:

- inefficient, in that it provides little or no more assurance than could be achieved by cyclical audits and follow-up work
- detrimental to the work of the internal audit service by giving the impression of superfluous and repetitive work
- ineffective, in that the constraints on resources available for internal audit at colleges usually means that an unacceptably narrow scope of internal audit is delivered.

10 Coverage of any particular system in successive years is only likely to be appropriate where the system has undergone major change. The previous opinion on the adequacy of control in this system may then be inappropriate. Most high-risk systems are typically audited every two years and should receive attention in the intervening year through follow-up work.

11 The audit needs assessment should be updated annually. This is an essential task in identifying systems for which the risk has changed during the last year, and which may require review earlier than initially intended. These changes will have a follow-on effect on both the strategic and annual plans. The audit needs assessment should be completely reassessed towards the end of one full cycle of coverage.

12 If in identifying the areas of work it becomes apparent that a system which ought to exist is in fact absent, the head of internal audit should draw this to the attention of management and the audit committee.

13 Where existing resources are inadequate to meet the assessed need, the head of internal audit should refer this to the governing body who should, on the advice of the audit committee in considering the risk assessment, decide whether:

- additional resources should be provided; or
- audit scope or timescales, and hence assurance, should be modified.

14 Where the head of internal audit and the governing body are unable to agree on a minimum level of resources required to deliver annual assurance on the whole of the internal audit scope, the governing body should be advised accordingly. The Council's chief auditor should be immediately advised of this by the governing body.

15 Audit results should be assessed regularly for any implications for priorities. Critical areas of work which prove to warrant considerable attention and/or early audit examination may not have been recognised in the initial assessment of audit need. Similarly some areas may subsequently be found to warrant less attention.

### **Strategic Audit Plan**

16 This should span one complete cycle of audit coverage. It will normally cover a period of two, to at most five, years, during which time it should provide for each system to be reviewed at least once. It should set out the areas to be covered, how frequently they are to be covered and allow for easy extraction of annual plans. It should be an expression of the resources agreed by the governing body as a result of the audit needs assessment. The strategic plan should be rolled forward, subject to an annual review as part of the updating of the audit needs assessment. Each year it should be approved, in conjunction with the audit needs assessment, by the governing body on the advice of the audit committee. This should be at the start of the year to which it relates, and in any event, before work begins.

### **Annual Audit Plan**

17 This should translate the strategic audit plan into audits to be carried out in the coming year. It should define the scope and purpose of individual assignments and allocate resources. The annual audit plan should be approved by the governing body on the advice of the audit committee at the start of the year to which it relates, and in any event, before work begins. Actual performance should be monitored frequently by the audit committee against the plan so that it can be revised as necessary.



## INTERNAL AUDIT APPROACH

1 Systems audit is the structured analysis and evaluation of the whole system of internal control at a college. It enables the college's internal audit service to reach the conclusions which are necessary to support its annual assessment of the adequacy and effectiveness of the college's whole system of internal control. Systems audit should start with the analysis of the college's systems in the audit needs assessment (see appendix 3 to this supplement, paragraphs 6 and 7).

2 The college's internal audit service should take a 'top-down' approach to their assessment of systems and controls, starting with controls designed to achieve top-level objectives and work down to detailed operational controls as reflected in the college strategic plan.

### Systems Audit

3 The primary objective of a systems audit should be to evaluate the extent to which the controls in the system may be relied upon to ensure the objectives of the system are met. The work of the internal audit service in carrying out a systems audit should be divided into the following stages:

- preparation and approval of an audit workplan
- discussion of the scope of the audit with college management before the audit starts
- ascertaining and recording the system by:
  - identifying the objectives of the system
  - establishing control objectives, as defined in paragraph 5 below
  - identifying all activities involved, covering inputs, processes and outputs
  - identifying controls
  - carrying out walk-through tests to confirm the auditor's understanding of how the system operates
- evaluating identified controls against each of the control objectives and arriving at a judgement on the extent to which the controls enable each of the control objectives to be met

- testing the operation of controls to establish whether they can be relied upon
- arriving at an opinion as to whether:
  - the controls evaluated are adequate to meet the control objectives of the system
  - testing has shown controls to be operating in practice
- promptly reporting findings and conclusions and, where appropriate, making recommendations for improvements in a draft report to college management
- after allowing college management an opportunity to comment on the draft report, completing the action plan and issuing the report in its final form.

### Audit Assignment Work Planning

4 A detailed workplan, based on the annual audit plan approved by the governing body should be prepared, and approved by the audit manager or equivalent before each audit begins. It should include objectives, resources, timetables, methods, procedures, supervision and reporting arrangements. Where the college internal audit service uses standard documentation, this should be reviewed for appropriateness and complete coverage of the actual system being audited. The college internal audit service should discuss the scope of each audit with line management before work starts.

### Control Objectives and Controls

5 Control objectives are derived from management's objectives for the system under review. They are used by the auditor as criteria against which to appraise the adequacy of internal controls. Systems usually contain hierarchies of control objectives. At the top should be managerial controls over the purpose, planning, direction and monitoring of the system. Towards the bottom should be detailed operational controls over transactions.

6 Controls are individual actions, procedures or operations taken or instituted by management to ensure that activities and procedures achieve its objectives.

7 To make the most effective use of internal audit resources, the college internal audit service should start with the highest level of controls and work down systematically. The experience of the Council's audit service in its first five years of internal audit service reviews is that insufficient attention is paid to high-level controls, with most attention paid to low-level controls. In carrying out its evaluation, the college internal audit service should ensure that the control objectives they use are comprehensive, and specific to the system being considered.

**Audit Evidence and Documentation**

8 The college internal audit service should collect, analyse and document information using appropriate audit techniques. Audit evidence should be adequate to meet the objectives of audit assignments. To be sufficient, audit evidence should be adequate and convincing so that a prudent informed person would be able to understand how the auditor's conclusions were reached.

9 The person leading the college internal audit service should specify standards of audit documentation. Documentation should be sufficiently complete and detailed to enable an experienced auditor to establish that appropriate conclusions were drawn.

## MODEL INTERNAL AUDIT ASSIGNMENT REPORT

1 A written report should be produced by the college internal audit service at the end of the fieldwork of each assignment, within the period specified for this in the internal audit service's terms of reference. The report may be exception-based or comprehensive; it should acknowledge good internal control.

2 The report should be discussed with the managers of the systems audited. College management and the internal audit service should work together to agree the report, complete the action plan and issue it in final form as soon as possible after the draft report to maximise the impact of the work and to avoid debate over the timeliness of findings.

3 The assignment report should contain:

- a statement of the audit objectives
- for each system audited in the assignment, the scope of the work as agreed with the governing body as part of the annual internal audit plan. It should also include the system and control objectives identified by the college internal audit service and agreed with management in advance of the assignment
- for each system audited in the assignment, the overall conclusions of the college internal audit service
- detailed findings and constructive recommendations for improved control. Recommendations should be presented in a way that enables the reader to form his or her own conclusion about their importance. This would be assisted by the prioritisation of recommendations
- the college's reaction to recommendations. Where a recommendation is agreed, the postholder responsible for its implementation and a latest date for this should be given, ideally in an easily understood tabular format.

### Form of Opinion

4 The wording for the overall conclusions for each system that should be used is:

#### **Statement of Assurance by the Head of Internal Audit on the [ ] System**

*In my opinion, which is based upon the audit evidence obtained:*

- *the internal controls in the system [are/are not] adequate to ensure that activities and procedures are operating to achieve the college's objectives for the system*
- *testing [has/has not] shown these controls to be operating in practice*
- *there [are/are no] significant risks to the performance of the system*
- *there [are/are no] significant opportunities for improvement in the performance of the system.*

## MODEL INTERNAL AUDIT ANNUAL REPORT

### Requirement for an Annual Report

1 The college's internal audit service must provide an annual report to the governing body. This must be available to the governing body in time for its signing of the responsibility statement contained in the college's annual financial statements. The minimum content of the annual report is given at paragraph 19 of appendix 2 to this supplement, as part of the model terms of reference for an internal audit service.

2 The annual report should contain the head of internal audit's statement of assurance to the governing body. This assurance is provided through an independent opinion on the effectiveness of the whole system of internal control at the college.

### Forming an Opinion

3 To be able to reach an opinion, the head of internal audit should first analyse the control framework, planning a programme of work, guided by the audit needs assessment and risk assessment, and then evaluating the results of audit work. The head of internal audit should aim to obtain as much assurance as is necessary to give an opinion. During the first year, as much assurance should be obtained as is possible over the broad span of the college, subsequently refining the assurance as further audit evidence is obtained.

4 Initially, most of the evidence on which assurance is based will derive from audits of high-risk and high-level systems as these provide the greatest amount of assurance for minimum audit effort.

### Materiality

5 In giving the opinion, the head of internal audit should recognise that total coverage of the whole system of internal control is impossible. The statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weakness in the framework of control. A 'material weakness' is defined as one which could lead to a significant impact on the business or standing of the college. The head of internal audit may need to take into

account various stakeholders and interest groups in forming this judgement. A test of materiality could be to consider whether there could be weaknesses which would prove to be a severe embarrassment to the principal, if raised before the Committee of Public Accounts of the House of Commons.

### Content of the Opinion

6 The head of internal audit's assurance to the governing body should be in the form of a clear opinion as to whether the framework of control has been established, maintained and updated in a way that will enable the achievement of the college strategic plan. In addition the opinion should cover:

- assurance on those systems or parts of systems that are critical to the attainment of value for money by the college
- assurance as to the adequacy and effectiveness of controls to prevent and detect fraud
- assurance as to the adequacy and effectiveness of arrangements established to exercise financial control.

### Model for an Annual Statement of Assurance

- 7 The form of the opinion should reflect:
- the factors that the head of internal audit takes into account in giving assurance
  - overall assurance on the framework of control at the college
  - a summary of the work done on individual assignments during the year.

8 The wording for the statement of assurance which should be used is:

### Report by the Head of Internal Audit to the Governing Body of [ ] College

*As the head of internal audit of [ ] College, I am required to provide the governing body with assurance on the whole system of internal control of the college. In giving my opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the governing body is a reasonable assurance that there are no major weaknesses in the whole system of internal control. In assessing the level of assurance to be given, I have taken into account:*

- *all audits undertaken during [the year reported upon]*
- *any follow-up action taken in respect of audits from previous periods*
- *significant recommendations not accepted by management and the consequent risks*
- *the effects of any significant changes in the organisation's objectives or systems*
- *matters arising from previous reports to the governing body*
- *any limitations which may have been placed on the scope of internal audit*
- *the extent to which resource constraints may impinge on the head of internal audit's ability to meet the full audit needs of the college*
- *what proportion of the college's audit need has been covered to date*
- *the quality of the internal audit service's performance.*

#### **Overall Assurance**

*In my opinion [ ] College [has/does not have] a sound framework of control which [provides/does not provide] reasonable assurance regarding the effective and efficient achievement of [ ] College's objectives.*

#### **Possible Qualifications**

*Where significant deficiencies in control have been identified by either management or the internal audit service, I am satisfied that they [have been/will be] resolved in an appropriate manner.*

*(or)*

*This opinion is based upon my conclusion that significant deficiencies in control have not been adequately resolved.*

*(or)*

*Restrictions to the audit programme prevent me from providing an opinion on the soundness of the framework of control.*

*(or)*

*We have not completed sufficient work at the college to date to enable us to conclude whether [ ] College has a sound framework of control which provides reasonable assurance regarding the effective and efficient achievement of [ ] College's objectives.*

#### **Operational Assurance**

*The internal audit service examined systems operating to achieve objectives set by management in each of the following areas:*

*[A list of systems audited in [year reported upon]*

*During the conduct of [all/specified audits] particular attention was given to arrangements established to ensure:*

- *financial control*
- *value for money*
- *safeguards against fraud.*

*From these examinations the internal audit service concluded that controls established to:*

- *achieve objectives are [good/adequate/weak]*
- *ensure economical and efficient use of resources are [good/adequate/weak]*
- *ensure compliance with the college's policies, procedures, laws and regulations are [good/adequate/weak]*
- *safeguard assets and reduce exposure to fraud are [good/adequate/weak]*
- *ensure the integrity and reliability of information and data are [good/adequate/weak]*
- *reduce the impact of contingencies are [good/adequate/weak].*

9 The wording of the report need not be restricted to that shown in paragraph 8. The head of internal audit may wish to expand the text, for example, where there are areas of deficiency.

## VALUE-FOR-MONEY REVIEWS AT COLLEGES

### Role of Management

1 The primary responsibility for achieving VFM lies with line managers. They should institute appropriate arrangements for securing VFM and for monitoring its achievement in the operations they manage.

2 Senior management may appraise the achievement of VFM by instituting special reviews of particular policies, programmes, activities or units. Such reviews may be carried out by line managers, consultant specialists, review services (including the college internal audit service) and external auditor, or by joint teams made up of personnel selected from these groups.

### Role of the National Audit Office

3 The comptroller and auditor general has a statutory duty, under the *National Audit Act 1983*, to carry out VFM examinations in government departments and certain other public bodies, including colleges. The comptroller and auditor general has complete discretion to choose subjects for examination and to determine the manner in which examinations are carried out. Findings are reported to the Committee of Public Accounts of the House of Commons.

### Role of the College Audit Committee

4 The audit committee is required to advise the governing body on the effectiveness of the college's system of internal control, including controls for securing economy, efficiency and effectiveness.

### Role of the College Internal Audit Service

5 The college internal audit service's terms of reference should make clear that the scope of their work covers controls over economy, efficiency and effectiveness. They should:

- clearly identify and appraise the framework of controls associated with the college's VFM strategy
- consider the need to emphasise VFM considerations when planning their work.

### VFM in Systems Audits

6 The college internal audit service should identify and evaluate controls over VFM in all audits.

Such controls cannot be rigidly defined or separated from others since all controls, such as those over security or compliance, can be seen as addressing different aspects of economy, efficiency and effectiveness. Some examples of controls most directly concerned with VFM are:

- planning
- management information
- performance measures and indicators
- policy and programme evaluation
- identification of costs and the allocation of responsibility for them
- comparison of costs with benchmark figures or those achieved by equivalent organisations.

7 Evaluation of controls normally involves testing to see if the control has been applied effectively. Testing may require direct consideration or analysis of whether VFM has been achieved. Auditors may pass on to management the results of such analysis, including examples of waste or other apparently poor VFM and suggestions for improvement, but should be careful to keep the focus of the audit, and the testing, on the evaluation of control.

### VFM Reviews

8 A VFM review refers to any examination which includes direct consideration and evaluation of the results achieved from activities. The objectives of such reviews go beyond the college internal audit service's objective of evaluating the whole system of internal control. The terms of reference of the college internal audit service should identify separately any responsibility it may have for initiating, conducting or participating in such reviews.

- a. The college's internal audit service's involvement in VFM reviews is beneficial in:
  - increasing the internal audit service's knowledge of the college and the effects of systems of control in operation
  - increasing the prestige, status and value of internal audit to the college
  - improving relations with other review bodies;
- b. the head of internal audit, before planning participation in reviews, should consider whether the internal audit service:

- has sufficient skills for the work and sufficient resources to give a systems-audit-based assurance on the framework of control
- can avoid taking an executive role in determining future actions and control
- will have its objectivity compromised by direct evaluation of performance and participation in the decision-making process.

## **SELF-ASSESSMENT CHECKLIST FOR INTERNAL AUDIT ARRANGEMENTS**

The HM Treasury standards for internal audit appear in bold beneath each heading.

### **Scope**

**Internal audit embraces the whole internal control system of a college, including all its operations, resources, services and responsibilities for other bodies.**

- formal terms of reference for internal audit in line with model terms of reference in appendix 2 to this supplement
- review by internal audit of significant contracted-out services, subsidiary company and/or collaborative provision arrangements
- review by internal audit of controls over significant capital projects, building projects or the private finance initiative.

### **Independence**

**Internal audit must be sufficiently independent to enable auditors to perform their duties in a manner which will allow professional judgements and recommendations to be effective and impartial. Internal audit should be independent of the activities they audit.**

- in-house internal audit is a truly separate and independent entity
- the head of internal audit has sufficient status within the college
- the head of internal audit has direct access to the principal, direct access to the audit committee and hence the governing body
- internal audit is not asked to carry out work outside its scope, for example, special reviews, value-for-money reviews, which prejudice completion of the annual plan, operational tasks, contracted-out services or systems design. Any additional work should be carried out by a separate team not involved with the internal audit of the college

- internal audit has unrestricted rights of access to college personnel, documents, records, information and assets as it considers necessary
- sufficient independence of staffing where internal audit and external audit are by the same provider.

### **Planning**

**Internal audit work should be planned at all levels of operation in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources.**

- a comprehensive audit needs assessment (ANA) has been carried out by internal audit
- the ANA identifies all areas of work by system and subsystem
- the ANA reflects senior management's views on risk and assesses the vulnerability of each area of work
- the ANA determines the period over which all systems will be audited
- the ANA estimates audit resources needed without regard to what is available
- a strategic audit plan has been prepared
- the strategic audit plan covers one complete cycle of between two and five years
- the strategic audit plan provides for each system to be reviewed at least once
- the strategic audit plan sets out the areas to be covered and how frequently
- the strategic audit plan is reconciled with available resources
- the ANA and strategic audit plan are reviewed and updated annually taking into account the results of audit work and developments at the college
- an annual audit plan has been prepared
- the annual audit plan translates the strategic audit plan into audits for the coming year
- the annual audit plan defines scope and purpose of each audit
- the annual audit plan allocates resources and timings



- the annual audit plan is revised on the basis of regular monitoring of actual performance
- all plans are submitted to the governing body for approval on the advice of the audit committee and in consultation with college senior management.

### Audit Approach

**The internal audit service should ensure that audit objectives and methods enable it to discharge its responsibilities to evaluate the whole internal control system. The internal audit service should obtain and record relevant, reliable and sufficient audit evidence to support audit findings and recommendations.**

- GIAM standards have been formally adopted by the internal audit provider in its letter of engagement
- for all system audits performed in the year, internal audit have discussed and agreed with college personnel, in advance of the audit, its scope and the system and control objectives
- for all system audits performed in the year, the internal audit service has discussed findings and conclusions with the college
- for all system audits performed in the year, the internal audit service has made recommendations where appropriate
- internal audit files remain the property of the college and are retained safely for an appropriate period and their confidentiality is ensured at all times.

### Controlling

**Internal audit work should be controlled at all levels of operation to achieve objectives and ensure the economic and efficient use of audit resources.**

- internal audit has established appropriate written policies and procedures for the guidance of internal audit personnel
- internal audit has established a quality assurance programme for its work
- internal audit quality assurance includes reviews by experienced internal audit personnel not involved in the original audit or its management

- the arrangements should be appropriate to the size and nature of the internal audit provider.

### Reporting

**The findings and recommendations arising from each audit should be promptly reported to management and followed up to ascertain action arising therefrom. A summary of audit activities must be submitted to the governing body.**

- internal audit has discussed findings and recommendations with college management before reporting
- internal audit assignment reports are produced promptly
- assignment reports are provided to the principal and copied to the audit committee
- assignment reports state the purpose, scope, audit results and recommendations for action
- assignment reports give an opinion on the adequacy, reliability and effectiveness of the controls within the system under review
- assignment reports are concise and assist management in solving revealed weaknesses
- assignment reports acknowledge satisfactory performance, action taken and college management's views
- assignment reports give all material facts
- the reported purpose and scope of the assignment are those in the annual plan and subsequently the annual report
- the college management's responses indicate whether recommendations are accepted
- the college management have taken, or planned, prompt action to rectify the situation
- reported recommendations not agreed or implemented escalate through the principal, audit committee and governing body
- all material recommendations are followed up within an agreed timescale after final report issue

- the internal audit annual report includes internal audit's assessment of the adequacy and effectiveness of the whole system of internal control
  - the annual report includes the extent to which governors can rely on the system of internal control
  - the annual report includes the scope of the work performed and a clear statement of any factors affecting the quality of the assurance
  - the annual report states achieved coverage against or explains variations from plans and the extent to which audit needs have been met
  - the annual report highlights any recommendations which have not received adequate management attention
  - the annual report was available to the governing body in advance of their approval of the annual financial statements.
- there is sufficient contact between the head of internal audit and senior college management, for example, the principal and head of finance
  - internal audit is informed of and consulted on changes to the whole system of internal control
  - there is mutual co-operation between the internal audit service and external auditor involving periodic meetings, access to each other's systems, notes and results, consultation on plans and visits and common understanding of audit techniques, methods and terminology
  - internal audit files are the property of the college and will be passed to the college on changing provider.

#### **Due Professional Care**

**In carrying out its duties, internal audit must exercise due professional care.**

- internal audit has a good knowledge of the Council's requirements and relevant legislation
- internal audit has a good knowledge of current issues at the college, its aims and whole system of internal control
- internal audit has taken appropriate action in response to complaints.

#### **Relationships**

**Relationships with management, staff, external auditors and other review agencies must be centred on the need for mutual confidence, understanding of role and co-operation.**

- internal audit has the confidence, respect and support of senior college management and the audit committee
- the head of internal audit normally attends meetings of the audit committee. Where the head of internal audit is unable to attend the meeting, a suitable representative attends

#### **Staffing and Training**

**Internal audit should be appropriately staffed in terms of numbers, grades and experience, having regard to its objectives and standards. Internal auditors must be properly trained to fulfil their responsibilities.**

- the head of internal audit has internal audit management experience backed up by a suitable auditing or accounting qualification
- team members responsible for leading the work are suitably qualified and experienced in working to GIAM standards
- the internal audit team possesses the range of knowledge, skills and qualifications and experience to meet internal audit's objectives
- internal audit has a training programme of tuition and practical experience for the team
- there is continuity of internal audit management and personnel
- internal audit personnel are regarded as competent by college senior management.

