

Factsheet: Internal Audit Protocol

Many organisations hamper the effectiveness of their internal audit function without realising it. This occurs because organisational obligations in relation to internal audit are not clearly defined or made known within the organisation. Sometimes, these obligations are contained within the internal audit manual. However, this is an internal procedure document for internal audit staff and not generally applicable to the wider organisation.

What needs to happen is for mutual obligations of internal audit and management to be clearly stated. The following protocol example suggests a way this could be done.

Internal Audit Protocol

Objective

This protocol prescribes obligations for internal audit and senior management in relation to internal audit work.

Internal audit will professionally contribute to building a better organisation through their work with the bigger picture in mind.

Management will constructively contribute to internal audit work to enhance organisation governance and operational control.

Mutual obligations

Activity	Internal audit	Management
Strategic alignment	› Our audits will align with the strategies, objectives and risks of the organisation.	› We will provide suitable guidance to the internal auditors on our strategies, objectives and risks.
Collaboration	› We will work constructively with management to improve our organisation.	› We will work constructively with internal audit to promote organisation improvement.
Service offerings	› We will have a range of internal audit service offerings to provide better service to management.	› We will take advantage of the most appropriate internal audit service offerings.
Assurance strategy	› We will offer an assurance strategy service to management to better understand if governance and controls are operating effectively.	› We will collaborate with internal audit on initiatives such as assurance strategy to improve the governance and control environment.
Internal audit planning	› We will prepare an annual internal audit plan that considers management input about their risks and issues.	› We will actively provide input to the internal audit plan.
Internal audit service planning	› We will facilitate planning workshops with management before internal audit services for mutual understanding.	› We will actively provide input to audit planning and draw out relevant elements of the approved risk appetite.
Audit timing	› We will provide management with an audit schedule and timings and we will stick to it.	› We will make ourselves available to internal audit in line with audit schedule timings.
Audit execution	› We will be respectful of the people we audit, understand they have their jobs to do, and avoid peak business periods where we reasonably can.	› We understand internal audit also has a job to do and we will help them to do that.
Communication with no surprises	› We will maintain effective communication throughout the audit so that management is not surprised and caught off-guard by significant observations raised during the wrap-up and reporting stage of the audit.	› We will provide internal auditors with all relevant information they require to complete the audit and will do so in a timely manner.

Activity	Internal audit	Management
Audit reporting	<ul style="list-style-type: none"> › We will deliver the internal audit report on the date we promised and ensure it is insightful, proactive and future-focused. › We will give credit where it is due and not just focus on the negative. 	<ul style="list-style-type: none"> › We will commit to constructive discussion on internal audit results and the best ways to mitigate identified risks.
Audit recommendations	<ul style="list-style-type: none"> › We will work with management to achieve the best improvement actions to remediate risks. 	<ul style="list-style-type: none"> › We will work with internal audit to achieve the best improvement actions to remediate risks.
Monitoring and follow-up	<ul style="list-style-type: none"> › We will actively follow-up and support management as they implement improvement actions. 	<ul style="list-style-type: none"> › We will diligently work to implement improvement actions in a timely way.
Ad hoc services	<ul style="list-style-type: none"> › We will offer risk-based ad hoc internal audit services to management in response to emerging risks and issues. 	<ul style="list-style-type: none"> › We will work collaboratively with internal audit to address emerging risks and issues.

Internal audit plan

Internal audit will consult with the chief executive officer, senior management and the audit committee when developing the internal audit plan for the coming year to gain insights into risks and emerging issues around operations, corporate support activities and projects.

Internal audit services

An executive sponsor will be nominated for each internal audit service.

Internal audit will consult with the executive sponsor, management of the area to be audited, and the chief executive officer (or their delegate) at the planning stage of every internal audit service. This includes opportunity for input to the objective and scope for upcoming internal audit services. A formal planning workshop with relevant management and staff may be facilitated by internal audit to discuss risks around the audit topic and optimise the audit objective and scope.

A formal opening meeting will be convened by internal audit for every internal audit service to formally present and agree the terms of reference including the objective, scope and timeline.

Internal audit will keep relevant management up-to-date on progress throughout internal audit services and to advise and discuss issues found by internal audit as they arise.

At conclusion of audits, internal audit will convene a formal closing meeting to discuss results of the internal audit service. A formal planning workshop with relevant management and staff may be facilitated by internal audit to discuss the results and arrive at agreed fit-for-purpose implementation actions and timings.

The chief executive officer (or their delegate) will review and sign-off every internal audit report.

Implementing improvement actions

Management will be responsible for timely implementation of improvement actions in response to improvement opportunities contained in internal audit reports. These actions will align to the strategies, objectives and risks of the organisation.

Management has a maximum of 10 working days from when they receive a draft internal audit report to provide their management responses and proposed improvement actions which should contain:

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

Where formal management responses and proposed improvement actions have not been received within 10 working days, the internal audit report will be provided to the audit committee, with a timetable for implementation to be pursued separately through the chief executive officer.

Where management responses are not considered adequate, internal audit will consult with management of the area audited and attempt to reach a mutually agreeable resolution. If agreement is not reached, internal audit will refer the matter to the chief executive officer for resolution. If agreement is still not reached, the final arbiter will be the audit committee.

Periodically (<monthly, bi-monthly, quarterly>) at a corporate executive meeting the chief executive officer will receive reports from senior management on progress to implement improvement actions from internal audit reports focusing on high risk and ‘at risk’ recommendations. This helps the chief executive officer understand how well outcomes of internal audits are being realised and draws to their attention unmanaged or inadequately managed risks outside the approved risk appetite.

Each quarter internal audit will request an update from management on implementation progress for every improvement action. Timing will align to audit committee meetings.

There is one opportunity for the executive sponsor to revise the implementation date for an action should this be necessary due to unexpected delay. The original date will be retained in tracking documentation with 'strikethrough'.

Where an original implementation date is passed, whether approved or not, the improvement action cannot be rated to be on track.

Where an improvement action rated high or above is not implemented and closed-out by its due date, the executive sponsor will be required to attend the next audit committee meeting and present details on why the action has not been fully implemented and closed-out and how the resulting risk is being addressed in the interim.

Where management seeks to accept a risk from an audit, they are required to complete a 'management acceptance of risk' form that considers approved risk appetite, and have it endorsed by the chief executive officer and approved by the audit committee.

Management requests for improvement action close-out will be supported by documentary evidence and approved by the audit committee before an action can be formally closed.

Footnote

The Institute of Internal Auditors–Australia (IIA-Australia) previously issued a fact sheet on management obligations which is replaced by this updated and expanded fact sheet.