

13 May 2021

Ms Hege Larsen  
INTOSAI Performance Audit Subcommittee Secretariat  
Office of the Auditor General of Norway

Re: *Using the Work of Internal Auditors in Performance Audit*

Dear PAS Secretariat:

Internal audit and external audit are natural partners, with complementary objectives and standards. We are pleased to see that our common goals and mutually beneficial relationship are recognized in INTOSAI's latest draft guidance for Supreme Audit Institutions (SAIs), *Using the Work of Internal Auditors in Performance Audit*.

We believe our common purpose, with appropriate safeguards for independence and objectivity, can serve to bolster the effectiveness of all audits, particularly of performance audits. We appreciate the opportunity to provide comments (attached) to the SAI draft document. Our intent is to reinforce the role of internal audit's relationship with SAIs in serving the public interest.

In reviewing the draft guidance, we would like to bring attention to SAIs' consideration of the work of internal audit. We strongly encourage emphasis on an assessment of reliability that is neither arbitrary nor subjective and includes objective criteria. In particular, we would highlight from the draft document statements that are specific to compliance with professional standards for internal auditing (including routine external review) and certification of internal auditors. Both conditions are prerequisites to the reliability of the work of internal audit regarding performance audits.

We also strongly support an active and ongoing collaboration between SAIs and internal auditors. With its enterprisewide view, internal audit provides effective insight and assurance

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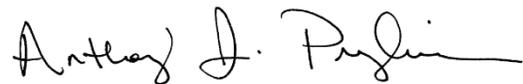
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over the adequacy of governance, risk management, and internal control. Regular cooperation and coordination between SAIs and the internal audit function should always be encouraged as it can ultimately enhance the effectiveness of external audit.

Please contact Mr. Francis Nicholson, The IIA's Vice President of Global Relations, at [francis.nicholson@theiia.org](mailto:francis.nicholson@theiia.org), if there are any questions.

Sincerely,

A handwritten signature in black ink that reads "Anthony J. Pugliese". The signature is fluid and cursive, with a long horizontal stroke at the end.

Anthony J. Pugliese, CPA, CGMA, CITP  
President and Chief Executive Officer  
The Institute of Internal Auditors, Global Headquarters

**Performance Audit**

**Practice Note**

Using the work of internal auditors  
in performance audit

DRAFT

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### Appendix - The role of the internal audit function in an organisation

**Commented [FN1]:** This content is very helpful and we suggest transferring some of it to appear in the main body of the paper as indicated.

## Using the work of internal auditors in performance audit

### Introduction

1. Public external audit and the internal audit functions of government entities play key but separate roles in the public sector. They are complementary in their objective to promote good governance, transparency and accountability. Both functions have their own specific purpose, professional discipline and audit standards that they follow. They are each governed by their own mandate or charter, and are bound by national laws and regulations. To achieve their respective goals and objectives, both must foster trust and good cooperation with their stakeholders, whilst safeguarding their independence and objectivity.
2. Given these commonalities of mission and method, there may be considerable benefits to be had from cooperation. The internal audit function is charged with providing insight and assurance over the adequacy and effectiveness of governance, risk management, and internal control and as such is likely a rich source of useful intelligence for the SAI. Where relevant, ~~most effective and reliable to do so~~, the Supreme Audit Institution (SAI), as the public external auditor, ~~may~~ should consider using the work of the internal audit function for its work, including within performance audits, as long as this is not in conflict with the SAI's mandate, the applicable legislation and external audit standards.
3. This practice note provides, in one document, practical and supplementary guidance on the main elements that the SAI and the individual auditor need to take into account when considering using the work of internal auditors within performance audit.
4. The practice note has been prepared by performance audit practitioners drawing on the expertise and practical experience of members of the Performance Audit Subcommittee (PAS) of the International Organisation of Supreme Audit Institutions (INTOSAI). The guidance is based on:
  - (a) the relevant INTOSAI pronouncements, including the INTOSAI founding and core principles (INTOSAI-P);
  - (b) the INTOSAI standards, including the Performance Audit Principles (ISSAI 300) and the Performance Audit Standard (ISSAI 3000); and
  - (c) the associated INTOSAI guidance, in particular the Central Concepts for Performance Auditing (GUID 3910) and the guidance on The Performance Auditing Process (GUID 3920).
5. The document is structured as follows:
  - a section on the INTOSAI principles, standards and other guidance that are relevant when considering using the work of internal auditors for performance auditing (paragraphs 7 to 22);

**Commented [FN2]:** Suggest a footnote is added here: The IIA and INTOSAI completed a review of their respective professional standards in 2016 and concluded they are fully compatible. See <https://na.theiaa.org/standards-guidance/leading-practices/Pages/The-IIA-and-INTOSAI-A-Comparison-of-Authoritative-Guidance.aspx>.

**Commented [FN3]:** The SAI should be directed to consider using the work as a matter of course. As part of that consideration there will be a determination of reliability and cost-effectiveness. As noted later in this paper, we believe the determination of reliability needs to be made on objective criteria. In particular we would highlight: compliance with the professional standards for internal auditing (including regular external review) and certification of internal auditors. Under these conditions the presumption should be the work of internal audit is reliable.

**Commented [FN4]:** "its" could be ambiguous. Here it is intended to refer to the SAI.

**Commented [FN5]:** Need to clarify this refers to external audit or INTOSAI standards.

**Commented [FN6]:** Suggested footnote: "If internal audit is judged to be effective, efforts shall be made, without prejudice to the right of the Supreme Audit Institution to carry out an overall audit, to achieve the most appropriate division or assignment of tasks and cooperation between the Supreme Audit Institution and internal audit." INTOSAI P1/Section 3

**Commented [FN7]:** Subject to final revisions to the paper, The IIA would appreciate being referenced as a source, including (as listed in the appendix) the International Professional Practices Framework, the International Standards for the Professional Practice of Internal Auditing, and the Three Lines Model.

## Using the work of internal auditors in performance audit

- a section on how the SAI can, in practice, use the work of the internal audit function as part of a performance audit process (paragraphs 23 to 49); and
  - an appendix providing a brief explanation of the role of the internal audit function in an organisation.
6. This practice note is being circulated for comments and suggestions from the members of the PAS, before being finalised and published on the PAS website ([intosaipas.org](https://intosaipas.org)). The practice note will complement material in the [INTOSAI Framework of Professional Pronouncements \(also known as the IFPP\)](#), but is not part of the framework.

## INTOSAI requirements

7. Although there is currently no specific INTOSAI standard or guidance on the use of the work of internal auditors for performance audit, there are key principles, standards and requirements within the [IFPP](#) that the SAI and the individual auditor need to take into account, whenever engaging with, and making use of, the work of internal auditors. [This may be most usefully considered in the context of a strong and constructive relationship between the SAI and the internal audit functions of public sector bodies. Through regular dialogue between these two complementary organs of government operating in the service of the public interest and maintaining their respective independence and autonomy, internal audit may be able to anticipate future external audit work and reflect this in the internal audit plan.](#)
8. This section of the practice note gives a comprehensive overview of these essential elements in the [IFPP](#), accompanied by a brief explanation and references to the relevant INTOSAI principle, standard or guidance:
- (a) The first part of this section focuses on the application of the INTOSAI principles and standards for safeguarding the SAI's independence and objectivity when it engages and coordinates with the internal audit function. [Correspondingly the internal audit function has requirements for safeguarding its independence and internal auditors for safeguarding their objectivity. \(It should be noted the IIA's definition for independence and objectivity vary from those of INTOSAI.\)](#)
  - (b) The second part looks at how specific requirements in the performance audit principles, standards and guidance should be applied by the SAI and the individual auditor in order to make appropriate use of the work of internal auditors.
  - (c) The third part includes references to the relevant INTOSAI pronouncements on [financial audit](#), as a source of additional guidance that the performance audit practitioner can draw

**Commented [FN8]:** Suggested footnote: As noted above the professional standards of SAs and internal auditing are compatible. However, although both SAs and internal auditors routinely undertake performance audits, they may follow different methodologies.

**Commented [FN9]:** This addition is important to demonstrate that SAs and internal auditors should have an active relationship so that when it comes to using the work of internal auditors in a performance audit there is already a good understanding.

**Commented [FN10]:** Suggest add footnote: See Standards 1100, 1110, 1120, and 1130 from the International Standards for the Professional Practice of Internal Auditing. <https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>

**Commented [FN11]:** Suggest add footnote: See the glossary of the International Standards for the Professional Practice of Internal Auditing. <https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>

**Commented [FN12]:** Noting this, many of the comments in this paper can apply to financial or compliance audits just as easily. Is there scope for a common paper covering all three kinds of audits?

## Using the work of internal auditors in performance audit

on when ~~deciding on the main prerequisites and considerations for using~~ determining how best to make use of the work of internal auditors.

**Commented [FN13]:** I don't think they are deciding on the prerequisites – because that is what this guidance gives them. They are using this guidance to determine how best to make use of relevant internal audit work.

### *The basis for coordination and cooperation with internal audit*

#### 9. Internal auditing is defined as

an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. (The IIA's International Professional Practices Framework.)

**Commented [FN14]:** At this point it is important to give an account of internal audit, drawing on some of the content in the appendix and elsewhere.

The International Standards for the Professional Practice of Internal Auditing (included in the International Professional Practices Framework) are the authoritative global standards and represent widely accepted best practice. Many governments have adopted these standards directly or embodied them within their own requirements for public sector internal auditing. Given the agreed compatibility of these standards with INTOSAI's own, the key determinant for recognizing reliable internal auditing is conformance with the International Standards for the Professional Practice of Internal Auditing as demonstrated by a regular external quality review.

**Commented [FN15]:** Insert footnote: See Standard 1300 from the International Standards for the Professional Practice of Internal Auditing. <https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>

The IFPP distinguishes between internal audit services established within the structure of a public sector organisation to be audited ~~that operate independently of management, free from management responsibilities and interference and accountable to an audit committee, board of non-executive directors, or equivalent~~, and the SAI as external, which is independent of the organisation being audited. Additionally, the SAI also has the task of examining the effectiveness of the internal audit function (INTOSAI-P 1/Section 3).

9.10. ~~Although the~~The objectives of internal audit ~~are different from those of~~ and the SAI ~~differ in their scope and levels of focus~~ (see Appendix). ~~Nevertheless~~, both public sector audit functions work to promote good governance, transparency and accountability for the use of public resources, as well as economy, efficiency and effectiveness in public administration. This offers opportunities for coordination and cooperation and the possibility of eliminating duplication of effort (ISSAI 100/39). However, it can only be possible if the internal audit services in the public sector are functionally and organisationally independent, as far as possible, within their respective constitutional framework, ~~as required by (INTOSAI-P 1/Section 3 and the International Professional Practices Framework)~~. ~~Routinely, internal audit and external audit should meet periodically to discuss findings, plans, and areas of mutual interest and potential cooperation~~. In some jurisdictions, the SAI's relations and interactions with the internal audit function are regulated in the country's legislation. ~~These can require a certain degree of regular cooperation and coordination between the SAI and the internal audit function~~. For example, some SAIs are required to provide methodological support and training to the public sector internal auditors.

**Commented [FN16]:** Suggest footnote: See Standard 1100 from the International Standards for the Professional Practice of Internal Auditing. <https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>

**Commented [FN17]:** This should be encouraged even when it is not required.

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Some jurisdictions also require that the SAI conducts external evaluations of the internal audit function and monitor its work.

~~10-11~~ The SAI can also consider consolidating its interactions with the internal audit function of central government, in regional/local authorities and other public bodies, by establishing formal bilateral relations and entering into agreements perhaps supported by memoranda of understanding on how to cooperate and coordinate work. This depends on the SAI's mandate and legal obligations; the expectations of stakeholders; and the SAI's strategy of engaging with internal auditors in the public sector, whenever such a function exists and can be of benefit and value to the SAI. Such efforts can be complemented with other initiatives to foster knowledge-sharing, discussion and networking among public sector auditors and other stakeholders; develop methodologies and common training material; and possibly exchange staff through secondments.

~~11-12~~ As the external auditor, the SAI needs to take into account the effectiveness of internal control arrangements, ~~including as well as the effectiveness of internal audit~~. The SAI may examine the work done by the audited organisation's internal auditors in order to gain ~~a broad insight and~~ understanding of the subject matter to be audited and its context (ISSAI 100/45). Moreover, the SAI may consider using the work of internal auditors when this is assessed to be relevant, necessary, and reliable, and is permitted by its mandate and the applicable legislation. ~~A key to determining the reliability of the work of internal auditors is conformance with the International Standards for the Professional Practice of Internal Auditing as demonstrated by a regular external quality review~~. The SAI, nonetheless, retains the sole responsibility for any audit opinion or report it might produce on the subject matter, and its responsibility is not reduced by using the work done by internal auditors (ISSAI 100/39). The SAI should also apply its framework of quality control policies and procedures (ISSAI 140) to ensure that any work of internal auditors that it uses for its purposes is subject to appropriate supervision, control and review.

### Safeguarding the SAI's independence and objectivity

~~12-13~~ The IFPP establishes the importance of safeguarding the independence and objectivity of the SAI and its staff in the conduct of audit activities. For the SAI to be credible and accomplish its tasks objectively and effectively, it should prevent or protect itself against undue outside influence or interference on its organisation, its audit work and the management of its activities. Furthermore, the SAI should ensure that it is not involved (or appear to be involved) with the management of the entity that it audits, nor develop too close a relationship with the auditee (INTOSAI-P 10/Principle 3). The SAI should also avoid any relationship that could undermine or hinder its obligation to report independently and autonomously on its work (INTOSAI-P 12/Principle 1). These principles are essential for the SAI to ensure that it remains independent and objective and

**Commented [FN18]:** Internal audit is not part of internal control. Internal control is a management responsibility. Internal audit provides assurance on the adequacy and effectiveness of internal control.

**Commented [FN19]:** Yes – and may talk with internal auditors.

**Commented [FN20]:** It is important, given the commonality of purpose and compatibility of standards, that an assessment of reliability is not arbitrary and subjective. Conformance with the Standards is strong prima facie evidence and the presumption should be on reliability unless there are good reasons not to.

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should, therefore, be applied also to ~~any~~ interactions between the SAI and the internal audit function. When the SAI is making an assessment of the effectiveness of internal audit, these measures are of particular importance. When the SAI is collaborating with internal auditors and using relevant and reliable work in support of a performance audit, internal audit is not the subject of that audit. Where an internal audit function is established in accordance with the requirements of the International Standards for the Professional Practice of Internal Auditing the SAI should not consider internal audit to be part of the management of the entity that it is auditing. In such circumstances cooperation is possible without there being a threat to SAI independence and objectivity.

**Commented [FN21]:** There is a difference between the SAI auditing management functions and operations that internal audit has audited, and the SAI auditing internal audit. In the latter case, internal audit is the auditee and stricter safeguards are needed in the relationship between the SAI and internal audit. However in the former case when internal audit is established in accordance with the Standards it should be regarded as independent of the entity being audited and the SAI may collaborate with internal audit without a threat to independence and objectivity.

~~13-14.~~ Moreover, any form of interaction that the SAI may seek to establish and maintain with the internal audit function should:

(a) be in accordance with the SAI's mandate and responsibilities, as defined and prescribed in the specific constitutional and legislative arrangements governing its functions ([ISSAI 100/13](#)); ~~and~~

(b) respect the SAI's independence and its power of discretion in performing its duties (in line with the general principle in [INTOSAI-P 1/Section 5](#)); ~~and-~~

~~(b)(c)~~ respect the autonomy of the internal audit function.

**Commented [FN22]:** Insert footnote: See Standard 1110 from the International Standards for the Professional Practice of Internal Auditing. <https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>

~~14-15.~~ Within the SAI, staff must act in an impartial and unbiased manner and be free from circumstances or influences that compromise, or may be seen as compromising, their professional judgement ([ISSAI 130/9 and 35](#)) and objectivity ([GUID 9030/Principle 3](#)). The SAI's auditors should also avoid circumstances that would cause a reasonable and informed third party to reasonably doubt their integrity, objectivity or professional scepticism, or conclude that they have been compromised ([ISSAI 130/36](#)).

~~15-16.~~ An appropriate professional relationship with an internal audit function that is itself in conformance with recognized professional standards and is independent of the management of the entity being audited is not likely to pose a threat to the independence and objectivity of the SAI. However, the SAI should therefore always ensure that any relationship it establishes with the internal audit function does not diminish its independence, both 'in fact' and 'in appearance'. This also applies to the SAI's auditors who, as individuals, should avoid situations where they would be unable to perform their activities due to the relationships that can influence and compromise their professional judgement, objectivity and professional scepticism.

**Commented [FN23]:** Yes but remember 1) internal and external audit have complementary objectives 2) internal and external audit operate according to complementary standards and 3) internal audit is also independent and objective. So they are natural partners. This should be the presumption rather than the more tentative approach being proposed here.

~~16-17.~~ Finally, the SAI should have policies and procedures in place, including responsibilities for supervision and review and quality control ([ISSAI 140/Element 5](#)), to exclude any outside influences or relationships that could have an impact on the SAI's independence or objectivity

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([ISSAI 130/39](#)). These are essential requirements that should also be applied by the SAI when using the work of internal auditors.

## Using the work of internal auditors in performance audit

### *Applying the general principles and standards of performance audit*

~~17-18.~~ INTOSAI's performance audit [principles](#) and [standards](#)<sup>1</sup> and the related performance audit [guidance](#)<sup>2</sup> provide a comprehensive framework of the main prerequisites and conditions that the SAI and the individual auditor should consider prior to the commencement of a performance audit engagement and throughout the audit process. These performance audit requirements and considerations apply also to those situations when the SAI uses the work of internal auditors for one or more purposes, such as during the selection of the audit topic, for the planning and design of a performance audit; during the conduct of the audit itself; as part of its reporting; or for the follow-up after the audit.

~~18-19.~~ The following paragraphs provide an overview of how the performance audit principles, standards and guidance can, in practice, be applied in situations when the SAI is using the work of internal auditors for performance auditing:

- (a) During the selection of potential audit topics, there can be situations when the internal audit function is consulted by the SAI. As a general rule, the SAI should consider the results and recommendations of previous audits or examinations as this can affect the timing and impact of a planned audit in the same area ([ISSAI 3000/95](#)). Past evaluations and audits can also help the SAI to avoid unnecessary work in examining areas that have been under recent scrutiny or highlight deficiencies that have not yet been remedied ([GUID 3920/23](#)). **The SAI ~~can~~ should, therefore, consider consulting the internal audit function on their past examinations on the audited organisation, especially if some of the issues and topics planned to be covered by the SAI are potentially similar or possibly overlapping with those that were examined by the internal auditors. In situations where the work of the SAI and that of the internal auditor converge, there can also be increased opportunities for communication, cooperation and coordination between the two audit functions (see also paragraph 10).**
- (b) When selecting audit topics, auditability is an important requirement of the SAI's planning process. It defines whether a topic is suitable for a performance audit. The SAI should assess whether there are relevant audit approaches, methodologies and audit criteria available, and whether the information required is likely to be available and can be obtained efficiently ([ISSAI 3000/94](#)). For this reason, the SAI ~~can~~ should consult, as appropriate, with the **internal** audit function on the approach it is considering for a planned

**Commented [FN24]:** This should be the presumption.

**Commented [FN25]:** Internal auditors should be the resident experts in the adequacy and effectiveness of governance, risk management, and internal control.

<sup>1</sup> [Performance Audit Principles \(ISSAI 300\)](#) and the [Performance Audit Standard \(ISSAI 3000\)](#)

<sup>2</sup> [Central Concepts for Performance Auditing \(GUID 3910\)](#) and [The Performance Auditing Process - GUID 3920](#)

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engagement. This could cover the methods and criteria that can be applied, as well as the timing and objectives of the audit.

- (c) During planning, understanding what is being audited is essential for the SAI to develop a sound understanding of the subject matter and to decide on the most relevant approach to the audit. Recent audit reports and working papers from the internal audit function can be useful input to the SAI for this purpose ([GUID 3920/22 \(j\)](#)).
- (d) The SAI also needs to assess and determine the level of materiality, i.e. the relative importance of a matter within the context in which it is being considered. This is a key consideration in all stage of the performance audit process: from the selection of topics and the definition of criteria, to evaluation of evidence, reporting and follow-up. Defining what materiality to apply requires careful judgement and can depend also on what is socially or politically significant, apart from assessing materiality on the basis of monetary value. The assessment of materiality can also vary over time and depends on the perspective of the relevant users and responsible parties ([ISSAI 300/33](#)). The SAI will need to apply these elements also when using the work of internal auditors, especially in those situations when it needs to assess the suitability of the materiality defined and applied by internal audit function for its own audits. [The external and internal perspectives will differ and in this matter SAIs and internal audit must make their own determinations.](#)
- (e) INTOSAI standards ([ISSAI 3000/74](#)) require that for every performance audit, the SAI identifies and assesses the risks of fraud relevant to the audit objectives at the planning stage. If the risk of fraud is significant, it is important for the SAI to obtain a good understanding of the relevant internal control systems that mitigate the risk of fraud and examine whether there are any signs of fraud or other irregularities that could hamper performance. This requirement from the standards is also relevant in those situations when the SAI is using the internal auditor as a source for collecting information and analysis on the risks of fraud and the internal controls in place.
- (f) As performance audits are normally not conducted on a regular (e.g. annual) basis on the same audited entities, channels of communication may not already exist for an audit. In line with the standards, the SAI should take the initiative to establish an effective two-way communication with the audited entity and stakeholders ([ISSAI 300/29](#)). As part of this approach, the SAI, ~~may also should be encouraged to decide~~ to open a dialogue with the internal audit function. This could make it easier, for instance, to verify the SAI's understanding and preliminary audit findings in line with the standards ([GUID 3910/66](#)). During audit work, the SAI can also have discussions with the internal audit function and

**Commented [FN26]:** The use of "these elements" is not clear here.

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take advantage of its experiences and knowledge of the audited organisation ([GUID 3920/65](#)).

- (g) Due care should be taken by the SAI to ensure that the independence and impartiality of work is not compromised ([ISSAI 300/29](#)). This would also apply in those situations when the SAI is using the work of internal auditors. The SAI should anticipate and consider carefully any specific risks that could threaten its independence and impartiality of the SAI ([ISSAI 3000/24](#) and [GUID 3910/11](#)) and document, during planning, how these risks will be handled ([ISSAI 3000/53](#)).
- (h) Data collected and analysed by the internal audit function can be an important source of information in a performance audit ([GUID 3920/46](#)). In each case, however, the SAI and its auditors are expected to exercise professional scepticism and adopt a critical approach throughout the audit. This includes maintaining an objective distance from the knowledge that is shared or the information that is provided ([ISSAI 3000/71](#)). Moreover, any evidence used by the SAI to support audit findings and conclusions must always be relevant, valid and reliable ([ISSAI 3000/108](#)). The SAI therefore is obliged to ensure that any evidence it gathers from the internal auditors meets these general conditions (see paragraph 12).
- (i) In line with the standards, the SAI's audit documentation should be sufficiently complete and detailed to enable an experienced auditor, having no previous connection with the audit, to subsequently determine the procedures that were applied and the work that was done in order to arrive at the audit findings, conclusions and recommendations ([ISSAI 300/34](#)). Based on this principle, if the work or findings of the internal auditor function are used as a source of evidence, the SAI's working papers should therefore include information on the assessment and review carried out by the SAI to ensure that the evidence, and the underlying work done by the internal audit function to compile it, were appropriate and valid. [As stated above, a key determinant for recognizing reliable internal auditing is conformance with the International Standards for the Professional Practice of Internal Auditing as demonstrated by a regular external quality review.](#)
- (j) For reporting, as required for all sources of data ([ISSAI 300/39](#)), if information or analysis from the internal audit function is used, the SAI should refer to this source in the report and explain its relevance and significance to the overall audit findings, as well as provide details on any limitations with the information given.

~~19-20~~. Additional practical considerations for each of the five stages of the performance audit process are presented in more detail in the next main section of this practice note (from paragraph 23 to paragraph 49).

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### *Relevant INTOSAI references from financial audit standards*

~~20-21~~. The [INTOSAI pronouncements on financial audit](#) also include requirements on the use of the work of internal auditors, some of which may be relevant and a source of guidance to the SAI's performance auditors. Some of the more relevant ones are listed are listed ~~in the~~ below.

## Using the work of internal auditors in performance audit

### Examples of relevant INTOSAI references from financial audit standards

Financial audit standards that, for example:

- require that the financial auditor obtains an understanding of the nature of the internal audit function's responsibilities, its organisational status and the activities it performs (ISSAI 2315);
- refer to the cooperation between the SAI's financial auditors and the internal audit function, including establishing how both audit functions can work together in a constructive, efficient and complementary manner; how they can engage in timely discussions; and how the SAI can use the work of the internal audit function, or use internal auditors to provide direct assistance (ISSAI 2260, ISSAI 2300, ISSAI 2315 and ISSAI 2500);
- focus on arrangements to be made by the SAI for the involvement of the internal auditor function in the financial audit (ISSAI 2210);
- refer to information that the SAI can obtain from the internal audit function in order to understand the entity and its environment; identify risks of material misstatement, review the relevant internal audit reports; and assess the response of management and the subsequent follow-up by the internal audit function (ISSAI 2315, ISSAI 2402 and ISSAI 2600);
- link the internal audit function to the monitoring of internal controls (ISSAI 2315 and ISSAI 2550);
- refer to the responsibility of the SAI's financial auditors to make enquiries with the internal audit function to determine their approach to detect fraud and whether the internal auditors have knowledge of any actual, suspected or alleged fraud affecting the audited organisation (ISSAI 2240 and ISSAI 2315); and
- specify the requirements governing the use of the work of the internal audit function by financial auditors, and the SAI's use of direct assistance by internal auditors for financial audit, including standards on how to determine whether, in which areas, and to what extent the work or the direct assistance of the internal audit function can be used (ISSAI 2610).

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[24-22](#). The SAI can draw particular inspiration from the requirements in ISSAI 2610, as it has a number of considerations that can also apply to performance audit. The following are some relevant considerations from ISSAI 2610:

- (a) Coordination between the SAI and the internal audit function is effective when, for example, discussions take place at appropriate intervals throughout the audit; the SAI is advised of any significant matters that come to the attention of the internal audit function, and the SAI has access to relevant reports of the internal audit function.
- (b) Any work assigned to the internal auditor function should be limited to what is appropriate for the purpose of external audit. Excessive use of the internal auditor in the SAI's audit work should be avoided as it would also affect perceptions regarding the independence of the SAI [as well as the independence of the internal audit function](#). Internal auditors could assist in assembling information necessary for the SAI, but control over principal procedures, such as clearing requests, should remain the activity of the SAI.
- (c) Matters to be agreed beforehand between the SAI and the internal audit function include:
  - the timing of the internal auditor's work;
  - materiality and the nature of the work to be performed;
  - the extent of audit coverage;
  - the audit approach and methodology to be used;
  - the documentation of the work performed; and
  - the review and reporting procedures to be applied.
- (d) The more significant the finding and/or the greater the amount of judgment that needs to be exercised by the internal audit function in the work to be used by the SAI, the higher the audit risk for the SAI. Using the work of the internal audit function alone, in such circumstances would not provide the SAI with sufficient and appropriate audit evidence. For this reason, it would be necessary for the SAI to:
  - exercise professional scepticism;
  - perform separate additional procedures to corroborate the work of internal audit; and/or
  - re-examine what has already been examined by the internal audit function.

This can include carrying out procedures to evaluate the overall quality of latter's work and the objectivity with which it has been performed. The SAI can, for example, observe the procedures performed by internal audit; review the internal auditors' working papers; and carry out a re-examination so as to validate the conclusions reached by the internal audit function. Such procedures would provide the SAI with more persuasive evidence regarding the adequacy of the work done by the internal audit function. [Care must also be taken when making an assessment of the reliability and relevance of the work of internal audit](#)

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[that this in itself is not another source of risk. The SAI may decide to reject work for the wrong reason including self-interest.](#)

- (e) The SAI should not make use of internal auditors and their work when the existence and significance of the threats to their objectivity are such that there are no safeguards that could reduce them to an acceptable level. [This is necessary as the internal audit function could be considered unable to perform the work without allowing bias, conflict of interest or undue influence of others to override professional judgments.](#) Such circumstances can arise [if the internal audit function is not operating in accordance with the International Standards for the Professional Practice of Internal Auditing.](#) For example, when:

- the internal audit function's organisational status, reporting line, and relevant policies and procedures, including its authority and accountability, are found not to support [objectivity/independence](#);
- the internal audit function is not free of any conflicting managerial or operational responsibilities,
- the internal audit function is associated with the department to which the work relates; and
- the internal auditor has significant financial interests in the organisation other than remuneration on terms consistent with those applicable to other employees at a similar level of seniority [that may compromise their objectivity.](#)

- (f) When evaluating the competence of internal auditors, the following general factors can be assessed:

- whether the internal audit function is adequately and appropriately resourced, relative to the size of the entity and the nature of its operations;
- whether there are established policies for hiring, training and assigning internal auditors to internal audit engagements;
- whether the internal auditors possess relevant professional designation, [such as the internationally recognized Certified Internal Auditor \(CIA\)](#), and experience, are members of relevant professional bodies that oblige them to comply with the relevant professional standards [such as the International Standards for the Professional Practice of Internal Auditing](#), and/or have adequate technical training and proficiency in [internal auditing](#); and
- whether the internal auditors possess the required knowledge of what is being audited.

- (g) In ISSAI 2610 it is explained that objectivity and competence may be viewed as a continuum. The more the internal audit function's organisational status and relevant policies and procedures adequately support the objectivity of the internal auditors and the higher the level of competence of the function, the more likely the SAI may make use of

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their work and in more areas. However, both elements are necessary, and one cannot compensate for the lack of the other. [Internal auditors are required by the International Standards for the Professional Practice of Internal Auditing to “possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.” As a whole the internal audit function is required to “possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.”](#)

- (h) The SAI should also be alert to circumstances when the internal audit function is not applying a systematic and disciplined approach as this may indicate that the risks to the quality of the work of internal audit are too significant and therefore it is not appropriate to use any of the work of the function as audit evidence. The SAI should expect that the internal audit function has and is using adequately documented internal audit procedures or guidance covering key audit procedures; has appropriate quality control policies and procedures in place; and its internal audit activities have been properly planned, supervised, reviewed and documented.

**Commented [FN28]:** Insert footnote: See Standard 1210 from the International Standards for the Professional Practice of Internal Auditing. <https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>

## Practical considerations

[22-23.](#) The performance audit standard ([ISSAI 3000/Section 5](#)) divides the performance audit process into five stages: (1) the selection of topics as part of planning; (2) the design of the audit also as part of planning; (3) the conduct of the audit; (4) reporting; and (5) follow-up.

[23-24.](#) The same stages as defined in ISSAI 3000 are applied below, and for each phase of the audit process, a number of supplementary practical considerations and cross-references to INTOSAI requirements and explanations outlined in the previous section are included.

### *Planning – selection of topics*

[24-25.](#) The SAI’s selection of audit topics, as part of its strategic planning process, involves the analyses of potential topics and the conduct of research to identify the most relevant audit risks and problems. This can include consulting internal audit reports [with the internal audit function](#) and taking into account, if assessed to be sufficiently reliable, the results and recommendations from these audits as well as any subsequent reported developments or concrete actions taken by those responsible for governance and the management of the audited organisation to address specific issues or concerns raised by the internal audit function (paragraphs 13 and 19 (a)). It is also relevant to analyse the management responses to the findings, conclusions and recommendations of the internal audit function, as these provides an indication of how management is responding to risks and potential internal control weaknesses in the audited organisation (paragraph 19 (e)).

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[25-26](#). The selected performance audit topics should be significant and auditable. Internal audit reports, and the related analysis and assessments, can serve as one important source of information for the SAI when assessing whether a topic is timely, relevant and suitable for a performance audit. Information from the internal audit function can help the SAI assess the potential impact of the audit topic and the benefit that could be derived from conducting the audit (paragraph 19 (a)). Moreover, the work carried out by the internal audit function can be useful for gaining insight on what possible audit approaches, methodologies and criteria can be applied. For example, the SAI can discuss with the internal audit function whether there are any difficulties to obtain the required documentation and data, and to compile all the required audit evidence. Furthermore, the internal auditor can provide insights on any other major limitations in terms of reliability of the available information and data (paragraph 19 (b)).

[26-27](#). In addition, information on previous work carried out by the internal audit function can help to avoid unnecessary duplication of work, or premature examination by the SAI of performance areas that have been under recent scrutiny and are affected by deficiencies that still need to be remedied (paragraph 19 (a)).

[27-28](#). It is also good practice for the SAI and the internal audit function to exchange regular and timely information on their planned or completed work, with the SAI nonetheless retaining its full autonomy and independence on the final selection of audit topics and the scope of work it plans to conduct (paragraph 13).

### *Planning – designing the audit*

[28-29](#). As part of the detailed planning of the audit, the SAI is expected to build a sufficient understanding of the topic under examination, using different sources to gather the information. During planning, the SAI could directly consult with the internal auditor in order to acquire more detailed knowledge of the issues and inherent risks affecting performance in the area being examined (paragraphs 19 (a) and (c)). The SAI can also discuss with the internal auditor the relevant internal control systems and their assessment of the risks of fraud, impropriety, corruption, irregularities or abuse (paragraph 19 (e)). The internal auditor could, for example, carry out, in advance, preliminary analysis and verifications that would feed into the SAI's preliminary work and planning of the audit, as one of the several sources used by the SAI to develop its understanding of the area to be audited.

[29-30](#). In this regard, due attention should be given to ensure that interactions with the internal audit function do not compromise the independence and impartiality of the SAI and its auditors. [Likewise, similar attention should be given in respect of the internal audit function's independence.](#) The SAI must apply professional judgement on the extent to which the work of

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internal auditors is relevant and could feed into, or support, the planning of an audit (paragraph 19 (g)). For example, both the SAI and the internal auditor function are likely to look at an organisation's internal control systems, risk management and governance, with the aim of assessing their reliability. However, the purpose, focus, methods and timing of engagements carried out by internal auditors could be fundamentally different from those done by the SAI. The relevance and reliability of the work done by internal auditors may also vary between one internal audit function and another within the public sector as, in practice, there can be significant differences between internal audit functions in terms the objectivity, capabilities, quality and reliability of the work carried out by each. [As stated above, a key determinant for recognizing reliable internal auditing is conformance with the International Standards for the Professional Practice of Internal Auditing as demonstrated by a regular external quality review.](#)

[30-31.](#) Information from the internal audit function can also be useful to define the audit objectives, scope and approach (i.e. the SAI's decisions on 'what' to audit; 'how' and 'who' to cover by the audit; as well as 'where' and 'when' to audit, including the period to be covered in the scope of the audit). For example, the auditor could refer to internal audit sources when assessing what criteria and procedures can be applied for gathering sufficient, relevant and reliable audit evidence. Insights from the internal auditors, such as the availability of suitable data, can also help the SAI to select the appropriate methods for collecting audit evidence (paragraph 19 (b)).

[31-32.](#) When defining materiality for a specific performance audit, the SAI can refer to previous work carried out by the internal audit function and evaluate whether the materiality applied for defining objectives and criteria, or planned to be used for evaluating audit evidence is sufficiently comprehensive, robust and appropriate (paragraph 19 (d)).

[32-33.](#) Towards the end of planning, the SAI could also consult with the internal audit function on the finalised timing and objectives of the planned audit, the approach to be used, and the methods and criteria planned to be applied (paragraphs 10 and 19 (b)).

[33-34.](#) If the SAI considers using internal auditors for direct assistance as part of a performance audit, this would also involve planning, duly in advance, the selection and integration of individual internal auditors in the audit team, including determining what their assignment will be and what audit procedures can they perform (under the direct supervision of the SAI). For this purpose, the SAI would need to ensure, at planning stage, that the internal auditors to be used for direct assistance have the required competences, experience, independence and objectivity to carry out their work without the risk of bias or conflict of interest (paragraph 15). This could require also some form of induction training so as to introduce the auditors to the concepts and methodology of performance audit, from the SAI perspective. In parallel, the SAI also need to apply all the

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relevant policies and procedures to safeguard its independence (paragraphs 13 to 16), and ensure effective supervision and review (paragraphs 17 and 19 (i) above) throughout the audit process.

34-35. There are a number of other considerations and limitations that the SAI would need to take duly into account if it decides to make use of the direct assistance of internal auditors (see for example conditions explained in paragraphs 22 (b), (d), (e), (f) and (h) above) for its performance audit work. It should also be noted that some national jurisdictions do not allow SAIs to make use of direct assistance from internal auditors, or any other external third parties. In [practicesome instances](#), the opportunities for using internal auditors, as an additional resource, ~~can~~ may be few or limited due to the specific competences and high level of judgement and flexibility required. Performance audits may also not be suitable engagements for such close collaboration due to their one-off nature and the type of audit work done. [On the other hand, discussions with the internal function and examination of internal audit reports can yield highly valuable insights, and internal auditors can provide cost effective and competent support to a performance audit.](#)

**Commented [FN29]:** It would be a shame to end this section on a negative.

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### *Conducting*

[35-36](#). During the audit, the SAI could engage professionally with the internal auditors, and discuss in an atmosphere of mutual respect and understanding the role and responsibilities of each function (paragraph 19 (f)). Coordination between the SAI and the internal audit function is effective when, for example, discussions take place at appropriate intervals throughout the audit; the SAI has access to relevant reports of the internal audit function and is notified of any significant matters that come to the attention of the internal audit function (paragraphs 10 and 22 (a)).

[36-37](#). Internal auditors could also assist in collecting information necessary for the SAI and facilitate access to the auditee's staff. They can also play a liaison role between the SAI and the audited organisation. The extent to which the SAI uses the work of internal auditors during fieldwork depends on the need for such input, the purpose of their involvement, as well as the SAI's assessment of the internal audit function's independence, objectivity and competence (paragraphs 12 and 22 (b)). Throughout the process, the SAI and its auditors should also exercise professional scepticism and adopt a critical approach, maintaining an objective distance from the knowledge that is shared or the information that is provided (paragraph 19 (g)).

[37-38](#). The SAI could also consider using the work of the internal audit function as corroborating evidence, complementing other audit evidence that has been compiled directly by the SAI. This is different from using internal auditors as direct assistance (discussed in paragraphs 34, 35 and 42). The evidence from the internal audit function, nonetheless, still must be assessed to ensure that it is sufficiently objective, robust and reliable (paragraph 19 (h)) to use by the SAI. This would include carrying out procedures to evaluate the overall quality of the work of internal auditors, and the objectivity with which it has been performed (paragraphs 19 (i) and 22 (d)).

[38-39](#). The SAI's working papers should include information on the assessment and review carried out to ensure that the evidence, and the underlying work done by the internal auditor to compile it, were appropriate and valid (paragraph 27 and paragraph 29 (i)). For this reason, depending on the extent to which the internal auditor's findings results are used as evidence, it could be necessary for the SAI to clearly demonstrate what separate additional procedures were performed to corroborate the work of internal audit, or if necessary, to re-examine what has already been examined by the internal audit function. Such procedures provide the SAI with more persuasive evidence regarding the adequacy of the work done by the internal audit function (paragraph 22 (d)).

[39-40](#). The SAI may also need to discuss, with the internal audit function, any deviating results, discrepancies or differences in, for example, the materiality attached to specific issues. These deviations would also need to be taken into account when drawing conclusions (paragraph 19 (d)) for clearing and reporting on audit results. The more significant the audit finding, or the

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greater the amount of judgment that was exercised by the internal audit function, the higher the audit risk for the SAI. Using the work of the internal audit function alone, in such circumstances would not provide the SAI with sufficient and appropriate audit evidence (paragraph 22 (d)).

~~40-41~~. Furthermore, the SAI should not use work of the internal auditors when their [\(i.e., the SAI's\)](#) independence and objectivity are not safeguarded (paragraph 22 (e)).

~~41-42~~. In the case of performance audits conducted with the direct assistance of internal auditors (see paragraphs 34 and 35), the SAI must ensure that, the necessary policies and procedures are put in place and maintained during this collaboration. This includes ensuring that the appropriate supervision and review responsibilities extend also to the work done through direct assistance, and that independent quality reviews also cover the work done through the internal auditors. This is essential in order to exclude the risk of any outside influences or relationships that could impact the SAI's independence or objectivity (paragraph 16). The SAI also retains sole responsibility for any audit opinion or report it might produce on the subject matter, and its responsibility is not reduced by using the direct assistance of internal auditors (paragraphs 17 and 19 (i)). This also means that the SAI might need to re-examine some the performance audit work done by internal auditors through direct assistance to assess whether the evidence collected and the judgements made were appropriate (paragraph 22 (d)).

### Reporting

~~42-43~~. During the finalisation and reporting phase of the audit, the SAI may consult with the internal audit function on the audit findings and analysis, taking advantage of the internal auditor's experience and expert knowledge on the organisation's processes, control requirements and actual conditions (paragraph 22 (f)). The SAI may also verify and clear relevant facts and observations with the internal auditor and the latter may also be available to discuss during the validation and review of the draft report by the auditee's management. The SAI should document in sufficient detail the interactions with internal audit function and keep a record of the feedback received from them (paragraph 22 (i)).

~~43-44~~. Information or analysis from the internal audit function may also be used as a reference or a form of corroborative evidence in the performance audit report. These references should be clearly cited and identifiable in the report, with due consideration also given to any restrictions on the disclosure of restricted information in the internal audit reports. The SAI may consider incorporating internal audit findings, conclusions or recommendations in detail or in a summarised form in the audit report. When doing so, the SAI should refer to the source, explaining its relevance and significance to the overall audit findings as well as provide details on any limitations with the information provided (paragraph (paragraph 22 (j))). The SAI also

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retains full responsibility for the information in the report and the conclusions reached (paragraph 12).

### *Follow-up*

[44-45](#). Assessing and measuring the impact of performance audit reports is a key element in the cycle of accountability. The previous audit findings and recommendations made by the SAI are followed up in order to establish and assess the measures taken. The follow-up could be in the form of a limited review of the existence of corrective measures, or an in-depth audit of a previously audited subject to determine the effectiveness of the measures introduced as a result of the audit.

[45-46](#). The very existence of the follow-up process can encourage the effective implementation of report recommendations by the audited organisations. For this purpose, the SAI may use the work of internal auditors as a source of evidence to complement its independent assessment on the implementation and impact of relevant corrective actions taken by the audited organisation (paragraph 10). Throughout the process, the SAI remains fully responsible for the results of the follow-up work and the related conclusions (paragraph 22).

[46-47](#). Moreover, especially in those countries where audited organisations are not legally required to implement recommendations made by the SAI, the internal audit function can support the outcome of the SAI's performance audit by separately following up with those responsible for governance and management on the deficiencies and shortcomings reported by the SAI, and by monitoring and assessing the implementation of the corrective action. The relevance of such parallel follow-up by the internal audit function depends on the SAI's assessment of the latter's independence, objectivity, capabilities and the reliability of its work (paragraphs 12 and 17).

[47-48](#). The SAI and the internal audit function can also exchange regular information on the implementation of required actions, and investigate why certain required actions were not carried out by the audited organisation. Moreover, the SAI could consult with the internal audit function on the timing of the follow-up and how it will be assessed.

[48-49](#). The SAI conducting the follow-up should also document the procedures carried out and the information and feedback received from the internal audit function during the exercise. The working papers of the auditor should include information on the assessment of evidence provided by the internal audit function (paragraph 29 (i)).

## Appendix

### The role of the internal audit function in an organisation

The Institute of Internal Auditors (IIA) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Internal auditing helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditors can work in diverse legal and cultural environments, and for organisations that can vary in purpose, size, complexity, and structure.

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~~As audit professionals, internal auditors may be bound by~~The IIA's *International Professional Practices Framework (IPPF)* is the only globally recognized set of professional standards for internal auditors and represented acknowledged best practice. ~~which~~The IPPF includes the *Core Principles for the Professional Practice of Internal Auditing* and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. ~~Many governments have directly adopted the IPPF while others have embedded its requirements within their own requirements. This will depend on national standards and on whether the internal auditors commit to follow IIA standards.~~

Internal audit should be primarily accountable to a governing body, and fully independent from the responsibilities of management and the operations it evaluates. This is established in the IIA's *Three Lines Model* (IIA, 2020) as essential for the internal audit's objectivity, authority, and credibility. Internal audit should also have unfettered access to people, resources, and data needed to complete its work; and the freedom from bias or interference in the planning and delivery of its services. To be effective, the internal audit function must be adequately resourced, and have qualified, skilled and experienced people who perform their duties in accordance with established principles and standards, such as the IIA's *Code of Ethics* and *Standards*.

Internal audit ~~can be~~ is most effective when it is uniquely positioned function within an organisation, identifying risks that inhibit the organisation from achieving its goals, and alerting management and the governing board to these risks. Internal audit can also advise and recommend improvements to help ~~reduce~~address risks. The function can deal with topics and issues that are fundamentally important to stakeholders, and relevant to the SAI, such as economy, efficiency, effectiveness, risks, internal controls, ethics, reputation, quality, innovation, growth and continuous improvement.

By communicating its independent, objective and timely assurance and advice, directly to the management and the governing board of an organisation, internal audit helps to provide clarity and confidence on:

- (a) the internal controls in place, and whether these are adequate to manage and mitigate the risks;

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- (b) the governance processes, and whether these are effective and efficient; and
- (c) the organisational goals and objectives, and whether these were met or are being achieved.

The internal audit function should also share information, coordinate activities and consult with external assurance and consulting service providers (including SAIs) to ensure proper coverage and minimize duplication of efforts ([IIA Standard 2050 on coordination and reliance](#)). The internal auditors' knowledge and insights on the organisation they are part of, and their assessments of risks, governance structures and operations can potentially provide the SAI with useful and meaningful information and analysis.

In some jurisdictions, specific legislation or agreements in place may also require the internal audit function, or the organisation that was audited, to provide information, on a regular basis, to the SAI on planned and undertaken engagements done by internal audit.