



Falkland Islands Government

Internal Audit Customer Handbook

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1. Introduction

Purpose and intended audience

1.1 This handbook is designed for all customers of internal audit within the Falkland Island Government to help ensure the effective delivery of internal audit services. Internal audit's key customers include staff, managers, the Corporate Management Team (CMT), the Standing Finance Committee (SFC) and any other staff directly involved in the areas subject to internal audit review. It is designed to be read together with the Internal Audit Charter.

Focus on high performance

1.2 The focus of this handbook is on the customer's role in recognising and developing internal audit into a high performing service which adds value to the organisation. The handbook establishes the basics of an internal audit service and describes how to identify and drive high performance.

1.3 A strong understanding and management of internal audit can help provide both an effective and efficient service which:

- meets quality standards and performance targets and seeks continuous improvement in its services;
- focuses on the areas of greatest importance to the organisation;
- minimises duplication with other sources of assurance and makes the best use of resources available; and
- can act as both a trusted advisor and a critical friend, helping improve service delivery.

2. Internal audit – the basics

What does internal audit do and why?

2.1 UK Government Public Sector Internal Audit Standards (PSIAS) define Internal Auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. PSIAS are not mandatory in the Falkland Islands but are followed in so far as possible as best practice.

2.2 The internal audit department is focused on evaluating the management of key risks to and the continuous improvement of the delivery of effective services. It is a key source of independent insight and assurance for FIG.

2.3 The work undertaken by internal audit culminates in the provision of an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. The results of internal audit’s work should help improve management’s ability to achieve the organisation’s objectives, by improving the effectiveness of risk management, control and governance.

2.4 The annual internal audit opinion is also be used to help inform the governance statement. The annual report must incorporate:

- the annual internal audit opinion;
- a summary of the work that supports the opinion;
- a statement on conformance with Internal Audit Standards; and
- the results of the quality assurance and improvement programme.

2.5 The purpose, authority and responsibility of the internal audit service is described in the internal audit charter, which is reviewed periodically.

The internal audit function – composition and reporting lines

2.6 Line management of the Chief Internal Auditor (CIA) rests with the Financial Secretary but the CIA is required to issue periodic activity reports to the Corporate Management Team (CMT) and Standing Finance Committee (SFC). The CIA also submits the annual plan to CMT and SFC for approval. The CIA does not normally attend CMT meetings but may be invited to attend if discussion relates to governance, risk management or control issues.

2.7 Each internal auditor should be qualified as either an internal auditor or accountant from a recognised chartered body (each of whom will have their own professional and ethical standards), or be training towards such a qualification. Exceptions to this may include trainees, assistants or secondees, or certain subject matter experts, who may bring an alternative set of skills and experience.

The annual internal audit plan

2.8 The internal audit service should be delivered in accordance with a risk-based internal audit plan which has been agreed with the CMT and SFC. The plan should determine the priorities of the internal audit service, consistent with the organisation's goals. It should therefore demonstrate the extent of its alignment with the organisation's strategic and other key risk assessments and risk register and set out the engagements to be conducted and the planned timescales, and should differentiate between assurance, consulting and if undertaken any other non-audit work.

Overview of an individual internal audit engagement

Planning

2.9 Each engagement should be specifically planned in order that the auditors obtain an adequate understanding of the audit area and can determine an appropriate scope and approach for the engagement. The output of this exercise should be a formal terms of reference (the Audit Notification) agreed with the audit client, which should include the engagement's objectives, scope, timing and resource allocations.

2.10 Where the approach to risk management is relatively mature, internal audit will use the risks and controls identified as the basis (but not sole focus) for the detailed audit work undertaken. Where the approach to risk management is immature or there is deemed to be some degree of deficiency in the approach, then internal audit will seek to understand and identify the key risks and controls pertaining to the audit area as part of the audit planning and fieldwork.

Fieldwork

2.11 The audit work will comprise assessment and testing of key controls in place to manage the identified risks (e.g. the risks within programmes to deliver objectives such as new services and facilities and fiscal consolidation), or within core systems. This would typically be undertaken through discussion with key staff responsible for the relevant processes; review of documentation; and testing of controls (which may be on a sample

basis) to confirm that they are both designed and operating effectively. Such controls may be financial, operational or compliance in nature and might range from the segregation of incompatible duties, to the analysis of business cases before strategic plans are implemented, to embedding appropriate cultural attitudes.

Reporting

2.12 Each internal audit engagement will culminate in an opinion on the adequacy and effectiveness of the framework of risk management control and governance. These conclusions, and corresponding recommendations for potential improvements in processes and controls, will be documented in a specific internal audit report. This report, which will include the actions agreed with management to address the internal audit findings, should be agreed before being finalised with the audit client.

Follow-up of internal audit actions

2.13 Following the identification of actions to improve the organisation's framework of governance, risk management and control, internal audit also has a role to play in helping ensure such actions are taken. The CIA will establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

3. Driving high performance

Meeting quality standards and performance targets, seeking continuous improvement

A high performing internal audit service...

- conforms, where possible, to the UK Public Sector Internal Audit Standards (PSIAS);
- has a clear methodology for its work which supports PSIAS;
- collects performance measurement data for use in:
 - improving its efficiency;
 - measuring its impact on the organisation; and
 - benchmarking itself against other internal audit services;
- has a quality assurance and improvement programme in place that covers all aspects of the internal audit activity; and
- receives an external quality review of the service at least every five years, the results of which communicated to appropriate senior management.

Focus on the areas of greatest importance

A high performing internal audit service...

- focuses work on where assurance is most needed, but ensuring sufficient assurance to support the governance statement; and
- applies a risk-based approach to setting their internal audit plan, but also ensures sufficient coverage is provided of core systems and there is flexibility to meet key emerging issues.

Minimise duplication and makes best use of resources

A high performing internal audit service...

- avoids duplication of effort with other assurance providers; and
- ensures the best value is received from the resources available.

Acts as a trusted advisor and a critical friend, improving public service delivery

A high performing internal audit service...

- understands and keeps abreast of the work of the Falkland Island Government;
- is respected, taken seriously and has strong relationships with key stakeholders within the government, built on credibility, strong communication skills and relevant experience;
- provides advice and recommendations at all stages of the business cycle, driving and influencing decision making, not just providing retrospective assurance;
- ensures its independence and has procedures in place to manage any potential conflicts of interest;
- provides relevant, effective, evidence-based and pragmatic advice and recommendations and robust conclusions, drawing on experience of best practice to help improve service delivery;
- ensures that recommendations, which address their findings, are implemented in line with agreed timescales; and
- works effectively and credibly and improve the framework of governance, risk management.