

INTOSAI



*Coordination and
Cooperation between
SAIs and Internal
Auditors in the Public
Sector*

INTOSAI PROFESSIONAL STANDARDS COMMITTEE

PSC-SECRETARIAT

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1. INTRODUCTION

- 1.1 This paper provides guidance on how to achieve coordination and cooperation between Supreme Audit Institutions (SAIs) and internal auditors in the public sector—while respecting the distinctive functions and professional requirements of both.
- 1.2 In addition to SAIs and internal auditors, this guidance may also be useful to other auditors conducting internal and external audits in the public sector on their behalf..
- 1.3 This paper should be read in the context of the International Standards on Auditing for Supreme Audit Institutions (ISSAIs), International Standards of Auditing (ISAs) issued by the International Auditing and Assurance Standards Board, and the Institute of Internal Auditors International Professional Practices Framework.
- 1.4 Although SAIs and internal auditors have differing and clearly defined roles, their collective purpose is to promote good governance through contributions to transparency in and accountability for the use of public resources, as well as to promote efficient, effective, and economic public administration. Common areas of work performed by SAIs and internal auditors offer opportunities for coordination and cooperation. Through SAI and internal auditor coordination and cooperation, the efficiency and effectiveness of both party's work can be improved.
- 1.5 In developing internal auditor/SAI coordination and cooperation, cognizance should be given to the specific roles of each party.
- 1.6 Both SAIs and internal auditors can perform the full range of government audits¹ and can offer distinctive and important contributions.² SAIs have the additional responsibility of evaluating the effectiveness of the internal audit function.
- 1.7 If internal audit is judged to be effective, efforts shall be made, without prejudice to the right of the SAI to carry out an overall audit, to achieve the most appropriate division or assignment of tasks and cooperation between the SAI and internal audit (*ISSAI 1, section 3, par. 3*). This will likely benefit both parties in their ongoing drive for efficiency and effectiveness in public services.
- 1.8 All coordination and cooperation efforts between SAIs and internal auditors should take into consideration the respective constitutional and legislative frameworks or agreements. These frameworks may define collaboration and responsibilities of the different parties. Collaboration mostly occurs at the discretion of SAIs, but where

¹ For the full range of government audits see chapter 3 (roles and responsibilities)

² The scope of internal auditor/SAI coordination and cooperation covers financial, compliance, and performance audits.

possible, cooperation and coordination between SAIs and internal auditors should be seen as an opportunity to improve the effectiveness of the audit.

- 1.9 Formal coordination and cooperation will only be possible where certain basic criteria regarding skills and competence are met. This paper does not preclude other forms of liaison, such as informal discussions or reviews of documents to aid in understanding of an entity's operations.
- 1.10 In the public sector, SAIs and internal auditors may cooperate in a variety of ways. Such cooperation can maximise the benefits gained from working together in areas where there is an avoidable overlap in the scope of work carried out by SAIs and internal auditors. This paper also recognises the contribution that internal auditors can make to the efficiency of external audits.
- 1.11 This paper does not include tools or best practices. They will be made available on the Subcommittee for Internal Control Standards' e-platform.

2. RECOGNITION OF RELEVANT EXISTING INTOSAI STANDARDS

- 2.1 For both SAIs and internal auditors, the need for independence and objectivity in audit is essential. An internal auditor's independence and objectivity are important factors for SAIs to consider when determining whether they will be able to coordinate and cooperate with an internal auditor and to what extent they can use the work of the internal auditor (*ISSAI 1610, ISA 610, par. 9; INTOSAI GOV 9140*). Both SAIs and internal auditors have their own independence standards.³
- 2.2 Internal audit services are subordinate to the head of the entity within which they have been established. Nevertheless, they shall be functionally and organizationally independent as far as possible within their respective constitutional framework (*ISSAI 1, section 3, par. 2; ISSAI 1610; INTOSAI GOV 9140*). In this paper reference is made to ISSAI 1610 and INTOSAI GOV 9140, especially with regard to the criteria used to determine the independence of the internal audit function.
- 2.3 When the SAI uses the work of an internal auditor, it performs procedures to obtain assurance that the internal auditor has exercised due care and complied with relevant auditing standards (*ISSAI 200, par. 2.45*). The SAI may review the work of the internal auditor to satisfy itself as to the quality of that work (*ISSAI 1610*).

³ Internal auditors use the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA) including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards) and Position Papers, Practice Advisories, and Practice Guides. SAIs use INTOSAI's ISSAI 10 - the Mexico Declaration on SAI Independence; ISSAI 11 - INTOSAI Guidelines and Good Practices Related to SAI Independence; ISSAI 30 - the INTOSAI Code of Ethics; and ISSAI - 200 INTOSAI General Standards. External auditors use the International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants.

- 2.4 When an SAI has determined that an entity's internal audit function is likely to be relevant to its audit, the SAI will determine (a) whether, and to what extent, to use specific work of the internal auditors; and (b) if so, whether such work is adequate for the purposes of the audit (*ISSAI 1610, ISA 610, par. 8-12*).
- 2.5 The SAI has sole responsibility for audit opinions it expresses, and that responsibility is not reduced by its use of the work of the internal auditors (*ISSAI 1610, ISA 610, par. 4*).

3. ROLES AND RESPONSIBILITIES

- 3.1.1 In developing coordination and cooperation between SAIs and internal auditors the specific roles of both parties are recognized.
- 3.1.2 Internal auditors work for and primarily report to the audited entity (administratively to management and functionally to those charged with governance,⁴ such as board, audit committee, senior management or, where appropriate, an external oversight body), while SAIs function as external auditors and issue their reports to the legislature or parliament (and indirectly the public). Specific legislation may require that internal audit also report to the SAI.

3.2 Internal audit

- 3.2.1 INTOSAI defines an internal audit function as the functional means by which the managers of an entity receive an assurance from internal sources that the processes for which they are accountable are operating in a manner which will minimize the probability of the occurrence of error, inefficient and uneconomic practices, or fraud (*INTOSAI GOV 9100*).
- 3.2.2 The Institute of Internal Auditors defines 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.
- 3.2.3 Within the context of roles and responsibilities, the following general principles are applicable according to INTOSAI GOV 9100:
- Internal auditors examine and contribute to the ongoing effectiveness and efficiency of the internal control structure through their evaluations and recommendations and therefore play a significant role in effective internal control.

⁴ See ISSAI 1260.

- Management often establishes an internal audit function as part of its internal control framework. In this tradition, the role of internal auditors is a critical part of an organisation's internal control structure.
- However, the mandate of an internal audit function does not include implementation of specific internal control procedures in the organisation. This is the responsibility of management.
- An effective internal audit function may cover the review, appraisal, and reporting on the adequacy of controls in order to contribute to the improvement of the internal control system.
- The internal audit function should utilize a continuous, risk-based approach, which should consider the risk criteria established by the governance body and management.

3.2.4 Although internal auditors are part of the organisation they audit,⁵ certain safeguards can be put in place to help protect the independence and objectivity of the internal audit function. The internal audit function should be functionally and organizationally independent as far as possible within its respective constitutional framework (*ISSAI 1, section 3, par. 2*). An internal auditor's work and conclusions should be impartial, neutral, and free from conflicts of interest.

3.3 SAIs

3.3.1 SAIs are generally established by the Supreme Lawmaking body or by constitutional provision. In some jurisdictions, SAIs contract private auditors to perform work on their behalf, or those charged with governance (such as board, audit committee, senior management or, where appropriate, an external oversight body) appoint a non-SAI auditor as their external auditor if permitted by legislation.

3.3.2 In most countries, SAIs have a wider range of responsibilities for reporting on the activities of audited entities than do private sector auditors. The full scope of government auditing includes regularity⁶ and performance audits (*see also ISSAI 100, par. 39-40*), as well as special examinations and forensic audits.

3.3.3 The regularity audit embraces, amongst others, the attestation of financial accountability of accountable entities and of the government administration as a whole; the audit of financial systems and transactions; internal control and internal audit functions; and the probity and propriety of administrative decisions taken within the audited entity. It also includes the reporting of any other matters arising from or relating to the audit that the SAI believes should be disclosed (*ISSAI 100*).

3.3.4 The performance audit is concerned with the audit of economy, efficiency, and effectiveness (*ISSAI 100*).

⁵ However internal audit work in an organization can also be performed by a service provider. It is getting more common in both the public and the private sector to have an external audit firm providing this service (*INTOSAI GOV 9140, chapter 4, models for resourcing internal auditing*).

⁶ Regularity will become both financial and compliance in the future (from 2013 on).

3.3.5 As external auditors, SAIs have the responsibility of evaluating the effectiveness of the internal audit function. If an internal audit function is judged to be effective, cooperation between the SAI and the internal auditor will likely benefit both parties (*ISSAI 1, sections 3 and 16*).

4. BENEFITS OF COORDINATION AND COOPERATION

4.1 A range of benefits may be obtained from coordination and cooperation between SAIs and internal auditors, including:

- An exchange of ideas and knowledge;
- Strengthening their mutual ability to promote good governance and accountability practices, and enhancing management understanding of the importance of internal control;
- More effective audits based on:
 - Promoting a clearer understanding of respective audit roles and requirements,
 - Better informed dialogue on the risks facing the organisation leading to a more focused audit and, consequently, more useful recommendations,
 - Better understanding by both parties of the results arising from each other's work which may have an impact on their respective future work plans and programmes;
- More efficient audits based on:
 - Better coordinated internal and external audit activity resulting from coordinated planning and communication,
 - Refined audit scope for SAIs and internal auditors;
- Reducing the likelihood of unnecessary duplication of audit work (economy);
- Minimizing disruption to the audited entity;
- Improving and maximizing audit coverage based on risk assessments and identified significant risks; and
- Mutual support on audit recommendations which may enhance the effectiveness of audit services.

5. POTENTIAL RISKS OF COORDINATION AND COOPERATION

5.1 Inherent in the coordination and cooperation process are certain risks which should be managed, such as:

- Any compromise of confidentiality, independence, and objectivity;
- Possible conflicts of interest;
- Dilution of responsibilities;
- Use of different professional standards relating to independence or audit;
- Misinterpretation of conclusions when using each other's work;
- Possible difference of conclusions or opinions on the subject matter;
- The possibility that potential findings of the other auditor may be prematurely communicated to an external party, before sufficient audit evidence exists to support those findings; and
- Not considering constraints or restrictions placed on the other auditor in determining the extent of coordination and cooperation.

5.2 Internal audit work in an organization can also be performed by a service provider. In some cases the same audit firm provides both external and internal audit service. The service provider should not perform internal audit work if they are also the external auditor or if they provide non-audit consulting services to that organization as it endangers independence and objectivity.

6. GROUNDS FOR COORDINATION AND COOPERATION:

6.1 Coordination and cooperation are built on commitment, communication, common understanding, and confidence.

6.1.1 Commitment

- Effective cooperation between internal auditors and SAIs can only be achieved if both parties are willing and committed to developing coordinated and effective audit services.
- Audit committee encouragement may improve the likelihood of successful coordination and cooperation between internal auditors and SAIs.

6.1.2 Communication

- Communication is a two-way process.
- Regular and open communication between SAIs and internal auditors is essential to the success of coordination and cooperation. Auditors should establish common understanding on the timing and nature of such communications.⁷

⁷ Formal communication can include regular meetings, particularly to look at future plans to identify opportunities for cooperation; to avoid duplication of efforts; to assure that audit coverage is coordinated; and to agree on methods for the sharing of audit findings and other information.

- Communication may include:
 - the exchange of audit reports and management letters;
 - in some circumstances, granting access to each other's audit programs and audit documentation while providing for sufficient discretionary and confidentiality provisions.

6.1.3 *Common understanding*

- Auditors should understand each other's objectives, scope, techniques, methods, and terminology to facilitate reliance on each other's work.
- It may be useful for SAIs and internal auditors to use similar techniques, methods, and terminology to facilitate cooperation and effective coordination.

6.1.4 *Confidence*

- There should be mutual confidence based on the recognition that internal and external audits are conducted within relevant professional standards.
- There should be confidence that any information exchanged is treated professionally and with integrity and within professional ethical guidelines. This exchange of information should incorporate sufficient discretionary and confidentiality provisions.

7. **MODES OF COOPERATION**

7.1 A broad range of ways to achieve coordination and cooperation between SAIs and internal auditors are possible. The degree of coordination and cooperation may vary depending on circumstances, including considerations of independence and legislative restrictions. Modes of coordination and cooperation may include:

- Communication of audit planning / audit strategy (e.g. joint planning sessions);
- Regular meetings between SAIs and internal auditors;
- Arrangements for the sharing of information (including consultation procedures);
- Communication of audit reports to each other;
- Organizing common training programmes and courses, and sharing training material;
- Developing methodologies;
- Sharing training material, methodologies, and audit work programs;
- Granting access to audit documentation;⁸
- Secondment or lending of staff (e.g. training on the job);
- Use of certain aspects of each other's work to determine the nature, timing, and extent of audit procedures to be performed; and

⁸ The SAI must have access to the sources of information and data from the internal auditor in order to carry out its audit responsibilities. SAIs should carefully consider confidentiality issues when disclosing audit documents that may contain sensitive subjects, such as forensic investigations. In order to maintain independence of SAI's, internal auditors do not have any automatic access rights to the audit documentation of the SAI or formal influence on the SAI's work programme. Nonetheless there are some circumstances where sharing audit documentation at the SAI's discretion may aid the audit process.

- Collaborating on certain audit procedures, such as collecting audit evidence or testing data.

8. WAYS TO ORGANIZE THE COORDINATION AND COOPERATION

- 8.1 Coordination and cooperation can either be organised formally or informally.
- 8.2 Formal coordination and cooperation can be organised through legislation, formal agreements, or protocols.
- 8.3 In certain low-risk engagements, SAIs and internal auditors may coordinate and cooperate in a more informal way.
- 8.4 Coordination and cooperation should be documented in compliance with applicable auditing standards.
- 8.5 Audit committees may encourage coordination and cooperation between SAIs and internal auditors.

9. AREAS OF COORDINATION AND COOPERATION

- 9.1 Areas of coordination and cooperation between SAIs and internal auditors may include:
- Evaluating the audit entity's (*see also INTOSAI GOV 9100*):
 - Internal Control framework;
 - Financial statements' Compliance with Laws and Regulations;
 - Performance indicators and performance studies;
 - Public Governance; and
 - Risk management (*INTOSAI GOV 9130*).
 - Documenting the audit entity's systems and operational processes;
 - Developing audit procedures;
 - Performing audit procedures, (e.g. audit of multi-located entities); and
 - Investigating fraud and corruption allegations.

10. PHASES & CONTENT OF COORDINATION AND COOPERATION

10.1.1 Coordination and cooperation can happen during the entire audit process:

- Preliminary to the engagement;
- At the planning stage;
- Performing further audit procedures;
- Concluding, finalisation, and reporting stage; and

- Follow up of audit findings and recommendations

10.1.2 The continuous nature of the assessment and communication between SAIs and internal auditors should be documented in their respective audit documents.

10.1.3 SAIs coordinate and cooperate during the audit process as follows:

10.2 Preliminary to the engagement

- Obtain an understanding of the audited entity and of each other's function;
- Consider the scope of the work performed by each party; and
- Evaluate the use of the internal auditor's work before determining its impact on the nature, timing, and extent of audit procedures to be conducted. This involves ensuring that the internal auditor that carried out the work was independent of the audited entity or activity and was objective in carrying out that work

10.3 Planning stage

10.3.1 In preparing the audit plan and determining the audit strategy, the SAI may evaluate the effect, if any, that the internal auditor's work may have on the external audit procedures. In this stage the auditor should perform a risk assessment to identify areas of significant risk.

10.3.2 When the SAI intends to use the work of the internal auditor, the SAI should evaluate:

- The independence of the internal audit activity;
- The objectivity and professional and technical⁹ competence of the internal auditor;
- Whether the work of the internal auditor is carried out with due professional care (conclusions are based upon audit objectives, audit scope, acceptable audit methodology, and sufficient audit evidence); and
- The effect of any constraints or restrictions placed on the internal audit function by any party or individual.

10.4 Performing further audit procedures

10.4.1 The work of internal auditors may be used to obtain part of the audit evidence that is necessary to achieve the objectives of SAI audit procedures.

10.4.2 The SAI should evaluate the internal auditor's work for the following:

- Whether the work was performed by persons having appropriate skills and expertise;

⁹ The work has to be performed by persons having appropriate skills and expertise.

- Whether the work was properly supervised, reviewed, and documented;
- The suitability of the working methods employed by the internal auditor;
- Whether sufficient, appropriate, and relevant evidence was obtained to draw reasonable conclusions;
- Whether the conclusions reached are appropriate in the circumstances and any reports prepared are consistent with the results of the work performed; and
- Whether any findings reported on by the internal auditor have been properly addressed by the audited organisation.

10.4.3 Where necessary, the SAI performs additional audit work to obtain this assurance.

10.4.4 Documenting the assessment of the decision to use the work of internal auditors will provide evidence to support the SAI's procedures, findings, and conclusions.

10.5 Concluding, finalisation, and reporting stage

10.5.1 When the work of internal auditors corroborates the findings obtained or conclusions reached by the external auditors, then the SAI may use the work performed by the internal auditor. This does not exempt the SAI from obtaining sufficient, appropriate audit evidence to reach a conclusion based on audit objectives, but it may reduce the extent of the auditor's work.

10.5.2 When there is a discrepancy between the findings or conclusions arising from an audit and those presented in the report of the internal auditor, the SAI and internal auditor:

- investigate the cause of the discrepancy, and
- reconsider and determine whether the analysis and interpretation of the audit evidence obtained was adequate and reasonable.

10.5.3 The SAI may discuss any discrepancies with the internal auditor and consider reporting on it to the relevant and appropriate parties.

10.6 Follow up of audit findings and recommendations

10.6.1 As part of the SAI's audit process, a follow up of the implementation and fulfillment of the SAI's audit recommendations should be undertaken. In cooperation and understanding with the SAI, the internal auditor may follow up the implementation and fulfillment of the SAI's audit recommendations, as a means of cooperating with the SAI's audit processes.

REFERENCES

INTOSAI

- ISSAI 1 The Lima Declaration, Section 3. Internal audit and external audit
- ISSAI 100 I Auditing Standards - Basic Principles
- ISSAI 300 I Auditing Standards - Field Standards
- ISSAI 1260 Communication with those Charged with Governance
- ISSAI 1610 I Financial Audit Guideline – Special Considerations – Using the Work of Internal Auditors
- INTOSAI GOV 9100 Guidelines for Internal Control Standards for the Public Sector
- INTOSAI GOV 9110 Guidance for Reporting on the Effectiveness of Internal Controls: SAI Experiences in Implementing and Evaluating Internal Controls
- INTOSAI GOV 9120 Internal Control: Providing a Foundation for Accountability in Government
- INTOSAI GOV 9130 Further information on Entity Risk Management
- INTOSAI GOV 9140 Guidance for Good Governance, Internal Audit Independence in the Public Sector

European implementing guidelines for the INTOSAI auditing standards

IFAC

- International Standard on Auditing 610
- Governance in the Public Sector: A Governing Body Perspective

IIA

- The International Professional Practices Framework, including the Definition of Internal Auditing, the Code of Ethics, The International Standards for the Professional Practice of Internal Auditing (Standards), Practice Advisories, Position Papers and Practice Guides

NAO & HM Treasury

- Cooperation between internal and external auditors, a good practice guide

GAO

- Financial Audit Manual, FAM 650 Using the work of others

Best Practices and tools will be integrated in the e-platform
