

Evaluation and Improvement of Internal Audit Systems and the Relationship between the Internal Audit Units and SAIs

The 9th ASOSAI Research Project Report

2012



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The Asian Organization of Supreme Audit Institutions (ASOSAI) is one of the seven Regional Working Groups of the International Organization of Supreme Audit Institutions (INTOSAI). ASOSAI was established in 1979 with 11 members and now membership has grown to 45 SAIs. The mission of ASOSAI is to promote professionalism, mutual support, and understanding amongst the member SAIs.

More information on ASOSAI is available on the Internet (<http://www.asosai.org>).

Evaluation and Improvement of Internal Audit Systems and the Relationship between the Internal Audit Units and SAIs

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Foreword

Conducting research is one of the ASOSAI's main functions stipulated in the ASOSAI Charter and the ASOSAI Research Project has been the centerpiece of ASOSAI's research efforts. ASOSAI has so far completed 8 research projects, all of which have reflected both concurrent and emerging issues in public auditing and have produced valuable guidelines and good practices on various fields of public auditing.

The 9th ASOSAI Research Project — entitled “Evaluation and Improvement of Internal Audit Systems and the Relationship between the Internal Audit Units (IAUs) and the Supreme Audit Institutions (SAIs)” — is I believe, both timely and meaningful, given the increasing attention paid to internal audit functions and to cooperation between the IAUs and SAIs. An internal audit is a crucial component of a good governance framework and there is a growing awareness of the internal audit function as an instrument for improving public sector performance and accountability. This topic is especially relevant at a time when the internal audit function in many ASOSAI member countries is in its early stage of development.

The final draft report was discussed and approved by the 12th ASOSAI Assembly held in Jaipur, India, in March 2012. On behalf of ASOSAI, I would like to express my sincere appreciation to the members of the research team consisting of 19 delegates from 12 member SAIs. An especially large number of SAIs have participated in the 9th Research Project, considering that the past research teams consisted of 5 members at most. My special thanks go to the three team leaders — Dr Myungsoon Hur, Project Coordinator from the SAI of Korea; Dr. Masiah Ahmad, from the SAI of Malaysia; and Ms Usha Sankar, from the SAI of India — for their excellent leadership and commitment. I would also like to express my sincere gratitude to all the members of ASOSAI, especially those who have held meetings and who have responded to survey questionnaires.

The research report incorporates useful guidelines and good practices on how to assess internal audit systems and how to establish the relationship between the IAUs and the SAIs. It also provides a checklist on the evaluation of the internal

audit system, the best practices for each core element of the internal audit system and a mechanism for the relationship between the IAUs and the SAIs. I am sure that this publication will contribute to the establishment of an effective internal audit system and to the development of mutually beneficial cooperation between the IAUs and the SAIs in the ASOSAI member countries. I hope that this publication will be used as a reference for professionals in public auditing — including practitioners, administrators, legislators, and academicians.

Dr. Kun Yang
Secretary General of ASOSAI
Chairman of the Board of Audit and Inspection of Korea

April 2012

Acknowledgement

The research team was formed in May 2010 in order to conduct the 9th ASOSAI Research Project, and the roadmap for this project was prepared by the research team in July 2010. The members of the research team met five times over the period November 2010 to December 2011 in order to discuss the scope of the research project, to draft the questionnaires for assessing internal audit systems and the relationship between the IAUs and the SAIs, and to discuss the research progress.

Meetings	Main Activities	Dates and Venues
41 st Governing Board Meeting	Selection of the 9 th Research Project topic	October, 15, 2009 Islamabad, Pakistan
1 st Research Meeting	Development of 2 sets of questionnaires	November 4-5, 2010 Seoul, Korea
2 nd Research Meeting	Discussions on gathering and analysis of data	April 28-29, 2011 New Delhi, India
3 rd Research Meeting	Discussions on the research findings	June 16-17, 2011 Kuala Lumpur, Malaysia
42 nd Governing Board Meeting	Report on the progress of the 9 th Research Project	August 4-6, 2011 Hanoi, Vietnam
4 th Research Meeting	Discussions on the format of the research report	September 27-29, 2011 Kuwait City, Kuwait
5 th Research Meeting	Discussions on finalizing the research report	December 1-3, 2011 Bali, Indonesia
12 th ASOSAI Assembly	Presentation of the Research Project report	February 29 – March 3, 2012 Jaipur, India

During the first meeting, the research team members discussed a roadmap for the project and developed two sets of questionnaires, which were sent to the 45 ASOSAI member SAIs and to their respective Ministries of Finance (MOF). During the second meeting, the research team discussed the preliminary results of the survey, which was conducted in March 2011. At this meeting, the research team discussed best practices for each element of the internal audit system and also considered the framework of the country papers, which would supplement the survey results. During the third and fourth meetings, the format and contents of the research reports, including country papers were discussed. During the fifth meeting, the research team focused on the survey results, wording, and other important aspect of the report.

The members of the research team would like to express their gratitude to the Governing Board of ASOSAI for having chosen the research topic and for fully supporting the project. Also, the research team would like to thank those Supreme Audit Institutions (SAIs) and Ministries of Finance (MOF) which responded to the questionnaires requesting information for this research project. Further the team would like to thank the Heads of the participating SAIs who provided valuable assistance in our research and also would like to thank those SAI officials who helped complete the country papers which supplement the survey results.

The team members of this research project were:

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Vietnam	Ms. Dang Thi Hoang Lien Mr. Tran Quang Huy

Abbreviation

AATI	Audit and Accounts Training Institute
AGP	Auditor General of Pakistan
ASOSAI	Asian Organization of Supreme Audit Institutions
BAI	Board of Audit and Inspection of Korea
BPK	The Audit Board of Indonesia
BPKP	The Financial and Development Supervisory Board of Indonesia
BSA	Board of Supreme Audit of Iraq
CAAT	Computer Assisted Audit Techniques
CAE	Chief Audit Executive
CAG	Comptroller and General Auditor of India
CCA	Chief of Controllers of Accounts
CFO	Chief Financial Officer
CIA	Certified Internal Auditor
CIIA	China Institute of Internal Audit
CISA	Certified Information Systems Auditor
CMA	Certified Management Accountants
CNAO	Chinese National Audit Office
COPU	Committee on Public Undertakings
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPA	Certified Public Accountant
DAGP	Department of the Auditor General of Pakistan
DPR	Indonesian legislative Assembly
DPRD	Indonesian legislative Assembly Provincial/Regional
E-SPP	Electronic Auditing Management System
GAAS	Generally Accepted Auditing Standards
GAB	General Auditing Bureau of Saudi Arabia
GAO	Government Accountability Office
IA-CM	Internal Audit Capability Models
IAU	Internal Audit Units
ICAP	Institute of Chartered Accountants of Pakistan
ICW	Indische Comptabiliteitswet
IFS	Integrated Financial System

IG	Inspectorate General
IIA	Institute of Internal Auditors
IIAM	Institute of Internal Auditors Malaysia
ISSAI	International Standards of Supreme Audit Institutions
MOF	Ministry of Finance
NADM	National Audit Department of Malaysia
NHA	National Highway Authority
PAC	Committee on Public Accounts
PPOD	Pakistan Post Office Department
SAB	State Audit Bureau of Kuwait
SAC	Supreme Audit Court of Iran
SAI	Supreme Audit Institutions
SAV	State Audit Office of Vietnam
SPSS	Statistical Package for the Social Sciences
URIAS	Uniform Regulation of Internal Audit System

Executive Summary

I. Introduction

Public sector governance requires controlling officers to discharge their responsibilities of stewardship of public resources through accountable and prudent decision making and delivery of outputs and outcomes. To this end, it has become necessary for public sector entities to have an independent internal audit unit to assist the controlling officers in effective discharge of responsibilities to ensure good governance. The effectiveness of internal audit function will determine the extent of audit coverage, the reliance on internal audit work, and the extent of cooperation between SAI and internal audit.

The objectives of the research project are as follows:

- To study and provide an objective evaluation of the prevailing status of the public sector internal audit system of the ASOSAI member countries as well as the relationship between SAI and IAU;
- To identify constraints in the functioning of internal audit and suggest effective solutions to improve the internal audit system;
- To identify the opportunities for and risks of coordination and to make recommendations for improvement; and
- To share best practices of internal audit system as well as cooperation and coordination mechanism between SAI and IAU among ASOSAI member countries.

The scope of the research project is restricted to the Internal Audit Systems at the central/ federal level. The methodology adopted is a descriptive study utilizing a survey method. The survey aims to cover the qualitative and quantitative aspects of evaluating the Internal Audit Systems to identify the constraints and measures to overcome these constraints, to assess the existing level of coordination between IAU and SAI, and to both identify the barriers and opportunities to improve the relationship. The questionnaires were distributed to the SAIs and Ministries of Finance of 45 ASOSAI member countries. A total of 26 SAIs and 18 MOFs responded to the survey.

II. Assessment of the Internal Audit System

Governance

The responses on governance aspects revealed that the Internal Audit is established through an Act of Parliament in 10 countries and through Cabinet Order/MOF Regulation/Management decision in 14 countries. While 14 countries have a formal term of reference, 8 of the respondents have stated that they have a clear audit charter setting out the role, authority and responsibilities of Internal Audit functions. As for the environment in which the IAU operates, for promoting an appropriate culture of good values, the majority of the SAIs have replied that there is a written code or that the countries are in the process of adopting such a code.

An audit committee is not established at the central government level in the majority of the countries. More than half of the responses showed that the internal auditors report to the Head of the Department, while in 10 countries they report to the Minister/Deputy Minister. Funding is provided by the annual budget of the Ministry/Department in 20 out of 26 respondents. The majority of the countries answered that the Internal Audit is not sufficiently independent of the executive.

Organizational Structure

The survey results showed that about half of the countries lacked a central unit for developing and coordinating policies for Internal Audit Unit. In a majority of the countries, Internal Audit is established within each Ministry/Department. In most of the countries the organizational position of the head of the IAU is Director/Middle Management level. The scope of internal audit function in most of the countries is broad covering all activities of the entire organization and the work is carried out by internal auditors and outsourcing is not very prevalent.

Standards and Review System

More than half of the countries surveyed have stated that the internal auditors performed their duties based on generally accepted standards. The standards are

set by MOF, SAI, Head of IAU or a combination of authorities, including audit committees. The majority of the respondents stated that they have internal audit manuals/guidelines even while there are no generally accepted standards. Less than half of the respondents answered that they have established a comprehensive policy or procedural manual based on IIA standards. Thus internal audit in over half the countries fully complied with internationally accepted standards or adopted some performance standards. So far as quality review of internal audit function is concerned, around half of the respondents reported having quality reviews.

Human Resources

Most of the countries require degrees and certificates related to auditing for the internal auditors. So far as tools and technology available are concerned, almost all the countries have provided computers and the majority of them have given email and some professional software to IAUs. However, the survey indicates that more than half of the respondents have problems with respect to staff either in terms of numbers or skills.

Services and the Role of Internal Auditing

It is seen from the survey results that the majority of the countries carried out compliance and financial audits. Only 50 percent of the countries carried out performance audit along with other types of audits. The audit planning is based mostly upon client's need with risk assessment as well as request/instruction. The planned audits have been achieved, to a large extent or completely. Nearly half the countries which responded to the survey questions on the role of internal audit in risk management process, in fraud detection and on the effectiveness of audit products have provided positive answers. Almost all the respondents have stated that internal audit recommendations are acknowledged or suitable actions are promised in future or are implemented with or without time delay.

Constraints and Improvements

More than 50 percent of the SAI and MOF identified shortage of staff and lack of staff with adequate skills and knowledge as constraints to effective functioning

of the IAUs. Most of the SAIs identified several ways to improve the IAU functions: By ensuring the independence of IAU, by active application of internationally accepted internal auditing standards and legal mandate for establishing IAU. From the perspective of the MOF, providing sufficient budget, increasing the number of staff, providing training programs, and improving audit quality are the ways identified to improve the IAU functions.

III. Relationship between the Internal Audit Units (IAUs) and SAIs

Legal or Formal Mandate

In around 60 percent of the countries surveyed, there are laws/regulations stipulating the relationship between the SAI and the IAU or formal meetings are held between the SAI and the IAU to understand the organization.

Evaluation of internal audit by SAI

In more than 80 percent of the countries surveyed, the IAU reports are reviewed in the course of audit and the internal audit is evaluated by the SAI. While evaluating the internal audit functions, the SAIs give the following aspects of internal audit more importance: (i) IAUs organizational structure, (ii) competency of staff, (iii) audit plan and execution, (iv) quality of audit activities, including audit testing, (vi) quality of documentation, (vii) quality of audit reports and (viii) implementation of audit recommendations.

Extent of Cooperation between SAI and IAU

The rating for the extent of cooperation between the SAI and the IAU has been ascertained in the survey questionnaire. The areas specified are audit planning, coverage, methodology, procedures, exchange of ongoing audit findings, audit reports, access to programs and working papers, and secondment of staff. The results indicate higher degree of cooperation in eight countries which have laws/regulations stipulating the relationship between the SAI and the IAU or which have a mechanism for formal meetings between the SAI and the IAU to understand the audited entity.

The SAI and the MOF of a majority of the countries surveyed have reported the possibility of convergence in the risk assessment process and the scope for sharing audit findings, reports, management letters and action taken reports, training programs and formal and structured meetings.

Constraints and Improvements

The barrier to cooperation identified by the SAI and the MOF of the majority of the countries is the absence of mandate such as laws, rules, and regulations. For improving cooperation, the majority of the SAIs suggested legal mandate, clarifying roles and responsibilities, better communication, installing formal meetings, and having common/joint training programs. The MOF of more than 50 percent of the countries identified better communication and common/joint training programs as the areas for improving cooperation and coordination between the SAI and the IAU.

IV. Recommendations and Best Practices

Internal Audit System

The survey results indicated that independence and objectivity of the IAU can be assured through a formal mandate in the form of an Act of Parliament, Cabinet or MOF directives or management decision. Of the participating nations in the project, it is seen that China, Indonesia, Iran, Iraq, Korea and Saudi Arabia have ensured establishment of IAU through legal mandate in the form of Audit Act/Order/Regulation.

To ensure independence, the IIA Standards stipulate that heads of IAUs should report administratively to the heads of the audited department and functionally to the Audit Committee. It is seen that Korea has established Audit Committees in two Ministries. Korea also has a Joint Coordination Committee playing the role of Audit Committee by providing advisory services to the IAU. Malaysia has Audit Committees in all the Ministries and Departments to review the accounts and audit reports and also make recommendations.

A professional practice framework is required to guide the internal auditors.

China has issued specific standards and code of ethics. Iraq has issued standards in accordance with the international standards. In Malaysia, the standards are determined by the MOF, the head of the Ministry, Audit Committee, and the Institute of Internal Auditors of Malaysia.

A quality assurance and review system should be built into the internal audit system to ensure professional and high quality work. In Iraq, the reviews are done internally by the Inspector General's office and externally by the SAI. Malaysia also subjects IAU to a dual review system — internal review by the heads of Ministries and the Audit Committees and external review by MOF and SAI. Russia has introduced a comprehensive matrix to assess the internal audit of every chief administrator of federal budget funds.

To have an effective internal audit to fulfill the diverse roles expected of it, the IAUs must have adequate staff and skill sets. China, Korea, and Saudi Arabia have prescribed the qualifications for internal auditors. In Malaysia, the IAUs are manned by the SAI through caderization of posts, ensuring that experienced auditors perform internal audit. The SAIs of Iraq, Malaysia and Pakistan conduct trainings on internal audit.

To fulfill the staff requirements of internal audit, the research team recommends incentives for internal auditors in the form of attractive remuneration, career development, and incentive for enhancing knowledge and skills. The team also recommends modernization of public sector internal audit activities by using information technology.

Cooperation and Coordination between IAUs and SAIs

From the analysis of the survey results, existence of legal mandate may be considered a strong stimulus for ensuring effective cooperation. In the absence of legal mandate, an alternate structured framework in the form of formal meetings between the SAI and IAU to understand the audited entity is the mechanism to ensure cooperation.

The Public Audit Act of Korea stipulates that the SAI must discuss audit plans with the IAU to avoid duplication and to enhance efficiency in auditing. The Act has established the Joint Coordination Committee to enable coordination.

The SAI of Malaysia has issued guidelines ensuring that the SAI, while preparing

the annual audit plan, obtains information on audits conducted by IAUs to prevent duplication of work.

The SAI of Iraq has issued a reference guide on the powers, responsibilities, and scope of the IAUs for the internal control units in the ministries. The guidelines further provide that IAUs consult the SAI for drawing up annual plans.

The efficiency and effectiveness of the audit efforts of a country can be improved by adequate staff that possesses the necessary skills. To enable internal audit to function well, it is seen that the SAIs of Korea, Malaysia, and Pakistan lend their staff to the IAUs. Some of the SAIs also offer training facilities to the IAUs.

To make an effective beginning towards cooperation and coordination, the survey results indicate that wherever the IAU exists, the SAI could take certain initiatives to make the IAU integral to accountability and good governance. They are:

- a. Prescribing standards for internal audit duly specifying duties, powers, and independence of the IAU;
- b. Formalizing modalities for ensuring non-duplication of work through;
 - i. Structured meetings between the SAI and the IAU, enabling better communication and clarity in respective roles;
 - ii. Submission of the IAU plan to the SAI which could be considered by the SAI before finalizing its own audit plan.
- c. Planning common/joint training programs;
- d. Ensuring by statute the IAU's role and a formal structure enabling cooperation and coordination with the SAI.

I. INTRODUCTION

1. Governance in the Public Sector and Internal Audit

1.1 Demands to enhance audit quality have become more vociferous in tandem with the increasing fraudulent practices and corruption, as well as accounting irregularities being highlighted of late. The global credit crunch and the result of several fiascos such as Enron, Welli Multi, Worldcom, Transmile, Megan, and so forth are wakeup calls as they have highlighted the lax standards of corporate governance among the businesses. Internal auditing in both the public and private sectors has increasingly been viewed as fundamental to good governance.

1.2 Public sector governance requires heads of ministries/departments and accounting officers to discharge their responsibilities of stewardship of public resources by being open, accountable, and prudent in decision-making, and in managing and delivering results. It has been observed that Auditor-Generals' reports have repeatedly commented on the performance of public sector entities for their failures to keep proper accounts or records, wastage, misuse of public funds, and so forth. In view of this, it has become necessary for public sector entities to have an independent internal audit function to assist the heads of ministries/departments in discharging their responsibilities effectively for achieving the determined goals and objectives of the organization.

1.3 The Lima Declaration of Guidelines on Auditing Precepts, which was adopted in 1977 (ISSAI 1), clearly explained the differences between the external (SAIs) and internal audits. It was stated under Section 3 of the Declaration that the SAI should assess the effectiveness of the internal audit. The effectiveness of the internal audit function will determine the extent of audit coverage, reliance on internal audit work (ISSAI 1610), and extent of cooperation between SAIs and internal audit.

1.4 The role of internal auditors in the public sector is important, and it has evolved through time. The traditional role of the internal auditor centers on examination, evaluation, and monitoring of the adequacy and effectiveness of the control structure of an organization. However, through the years, the

internal auditors' role has changed. They are required to improve and make recommendations on aspects of economy, efficiency, and effectiveness. Internal auditors also need to assess the effectiveness of risk management whether financial, operational, or strategic to ensure that the internal control system is strong. They evaluate processes and determine what is working and what is not. In light of such broad scope, a mature internal auditing system is essential.

1.5 To achieve an effective internal audit function, an internal audit should be independent and objective in providing assurance and consulting services. The importance of independence and objectivity is emphasized in INTOSAI Guidance for Good Governance (INTOSAI GOV 9140 - Internal Auditor Independence in Public Sector). These aspects are described as important factors for cooperation and coordination between SAIs and internal audits (INTOSAI GOV 9150).

2. Objectives of the Research Project

The objectives of the research project are as follows:

- To study and provide an objective evaluation of the prevailing status of the public sector internal audit system of the ASOSAI member countries, as well as the relationship between IAUs and SAIs;
- To identify the constraints in the functioning of the internal audits and suggest effective solutions to improve the internal audit system;
- To identify the opportunities for and risks of coordination and make recommendations for improvement; and
- To share best practices of the internal audit system as well as the cooperation and coordination mechanisms between IAUs and SAIs among ASOSAI member countries.

Since the research used a survey method, it was assumed that the respondents would be capable of accurately reporting their perceptions on the internal audit system as well as the relationship between IAUs and SAIs. Their responses are relevant to the clarification of the internal audit system and the level of relationship between IAUs and SAIs.

3. Scope and Methodology of the Research Project

3.1 The target population of the study consisted of 45 Asian Organization of Supreme Audit Institutions (ASOSAI) member countries and 45 MOFs which represent the IAUs of those member countries. The 45 ASOSAI member countries are: Afghanistan, Armenia, Australia, Azerbaijan, Bahrain, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Cyprus, Georgia, India, Indonesia, Iran, Iraq, Israel, Japan, Jordan, Kazakhstan, Korea, Kuwait, Kyrgyzstan, Lao People's Democratic Republic, Malaysia, Maldives, Mauritius, Mongolia, Myanmar, Nepal, New Zealand, Oman, Pakistan, Papua New Guinea, Philippines, Qatar, Russian Federation, Saudi Arabia, Singapore, Sri Lanka, Thailand, Turkey, United Arab Emirates, Vietnam, and Yemen.

3.2 This study was descriptive, utilizing a survey method to give a picture of what is the constraints to the effective function of the IAUs identified by SAIs as well as MOFs and how these constraints can be overcome from the perspectives of those parties. It also identified the constraints and opportunities to improve the relationship between IAUs and SAIs. The data of the study were drawn from the survey questionnaires and the country papers were prepared by the 12 participating ASOSAI member countries.

3.3 The aspects identified to evaluate the internal audit system were based on the Institute of Internal Auditors (IIA) Capability Maturity Model with modification. Two sets of structured questionnaires were developed as a mode of data collection. The survey questionnaires were designed, from the perspective of SAI and MOF, to adequately cover the qualitative and quantitative aspects of these two components. From the perspective of SAI, the questionnaire solicited information on the governance, structure, standards and review system, human resources and improving internal audit. Additional information on the aspect of the IAU services was added to the questionnaire circulated to the MOF respondents. The questionnaires were revised and modified extensively after pre-test and the final questionnaires were distributed for response.

3.4 The survey was conducted from March to May 2011. Two sets of questionnaires were distributed, one set to SAIs and the other set to MOFs in 45 ASOSAI member countries. A total of 26 SAIs and 18 MOFs responded to the survey, which corresponded to 58 percent and 40 percent of those institutions

from ASOSAI's 45 member countries, respectively. Among the responding 26 SAIs, 16 SAIs have an Auditor General or Comptroller General, 6 are courts of audits or chambers of accounts, and 4 are of the board-model. The list of survey respondents is presented in Appendix A.

4. Limitations of the Research Project

4.1 The research focused on the internal audit systems at the central or federal level. Thus, the required sampling strategy limited respondents to central/federal ministries and departments. It did not include the internal audit systems at the provinces/states level, local government level and public enterprises.

4.2 The research utilized the Institute of Internal Auditor's Capability Maturity Model with modification, which emphasizes the evaluation of the internal audit system on the aspects of governance, structure, standards and review system, human resource, services, and improving the internal audit. This model may not include some other important aspects in the overall evaluation of the internal audit system and relationship between the IAUs and SAIs, which, if studied, will yield better results.

4.3 It is noted that the MOFs do not represent all IAUs at the central/federal level. However, in this research, MOFs are chosen because they have better knowledge of IAU practices than other ministries/departments.

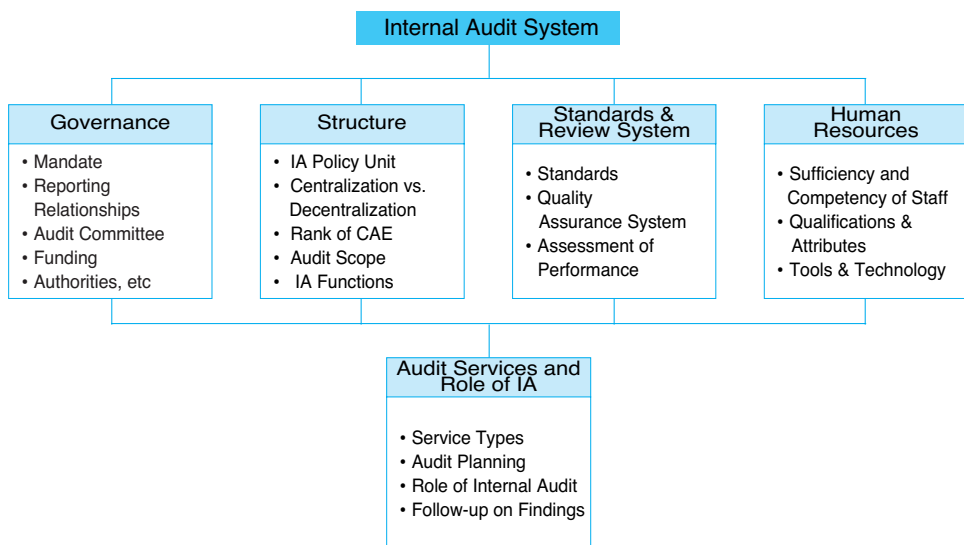
4.4 Additionally, the sample of this research project may prevent generalizing the results since only 26 SAIs and 18 MOFs out of 45 member countries responded. The best practices were drawn from 12 countries that participated in the 9th Research Project, due to data limitations.

II. Assessment of the Internal Audit System

1. Structure of the Questionnaire

This research project aimed to identify areas of improvement in internal audit systems and make recommendations to ASOSAI member countries. In order to achieve this objective, it was recognized that there was a need for assessing current practices prevalent in ASOSAI member countries. In assessing the internal audit systems in ASOSAI member countries, the research team identified core elements of the internal audit function which are required to establish an effective internal audit system in government: governance, organization, standards and review system, human resources, and services. Additionally, the survey asked respondents to identify constraints in the functioning of internal audit and suggest ways of improving the internal audit system in government. Sub-elements of internal audit that comprise each core element and the details of each core element are explained below.

Figure 1. Five Elements for Assessing the Internal Audit System



2. Survey Results: Five Elements of Internal Audit System

2.1 Governance

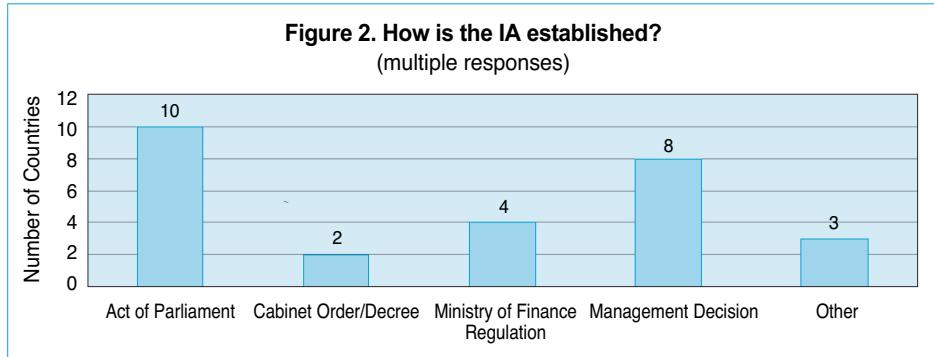
Governance refers to the combination of processes and structures implemented to direct, manage and monitor the organizations activities towards the achievement of its objectives (IIA, 2009). The governance element of internal audit includes the administrative and functional relationships of the internal audit activity. The governance element of the framework includes the means by which the independence and objectivity of the IA activity are assured; for example, through its formal mandate, the reporting relationship of the head of the IAUs to the governing body, the oversight mechanism such as an audit committee and/or funding mechanism. Internal audit functions are expected to be independent and objective in carrying out their responsibilities. Therefore, the criteria to assess the governance element of internal audit in the survey are whether the internal audit function:

- is established by legislation or regulation;
- reports the audit findings to the head or to the deputy head of the government entity;
- has access to and communication with audit committees; and
- has appropriate funding

2.1.1 Mandate

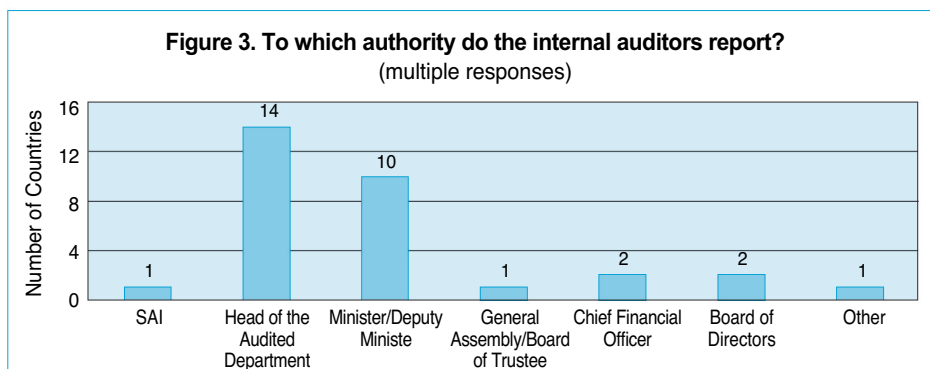
The establishment formulation of the Internal Audit Unit is crucial in assuring independence and objectivity. SAIs responses regarding the establishment of the Internal Audit Unit revealed that 38.5 percent of respondents (10 out of the 26 SAIs) stated that IAUs are established based on an Act of the Parliament, while 30.7 percent of respondents (8 out of 26 SAIs) answered that it is by a management decision. Four out of 26 SAIs answered that the Ministry of Finance regulation governs the establishment of the IAU; in Thailand, the establishment of IAUs is based on both an act of Parliament and the Ministry of Finance regulation. Having the Internal Audit Unit to be established by an Act of Parliament is considered the best practice as such legislation would assure its

independence by providing it with the authority to practice its duties and responsibilities objectively. In over fifty percent of countries which responded to the survey, the IAUs in the central governments are established by laws, regulations, or decrees. The details of responses are presented in the following chart.



2.1.2 Reporting Relationships

The reporting level reflected the degree of independence and effectiveness of the internal audit functions and contributes to ensuring these essential qualities. According to the survey results, 53.8 percent (14 out of 26 SAIs) responded that internal auditors report to the head of the audited department. Only ten countries answered that they report to the minister/deputy minister. In Japan, the IAU reports to Chief Financial Officer and/or Head of the Executives such as administrative vice minister, secretary general, etc. Nepal is the only country which answered that the head of the IAU reports to the SAI as well as the head of the audited department. As for the best practice in the reporting mechanism, the IIA Standards for Professional Practice of Internal Auditing (hereafter IIA Standards) stipulate that the head of the IAU reports administratively to the minister and, functionally to the audit committee. Therefore, the survey results showed that less than fifty percent of responding countries follow best practice.

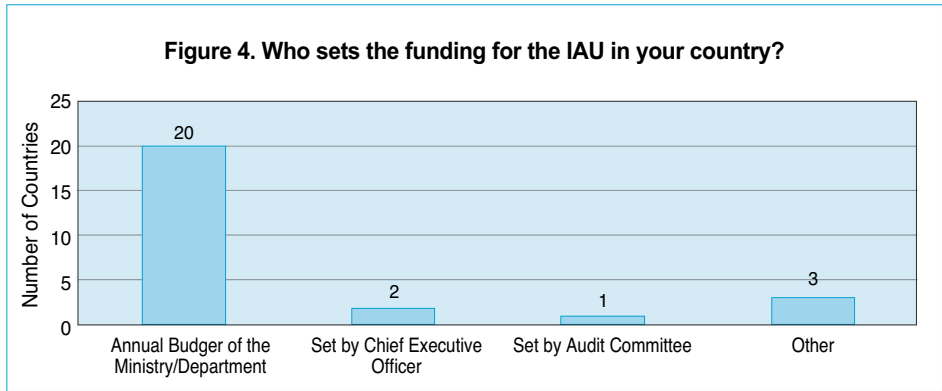


2.1.3 Audit Committee

The Audit Committee can greatly strengthen the independence of the internal audit activity. The Audit Committee can facilitate communication among senior management, the internal auditors, and the external auditor. Best practice indicates that the central activity of the Audit Committee is to advise management on risk, control and governance processes. According to the Ministry of Finance survey results, the Audit Committee is not established at the central government level in many countries, as 83.3 percent of responding SAIs (15 out of 18 SAIs) indicated that they do not have an Audit Committee at the central government level. One the other hand, 3 SAIs affirmed that an Audit Committee has been established which meets the requirements of actively promoting risk, control and governance issues and of using internal audit to enhance them.

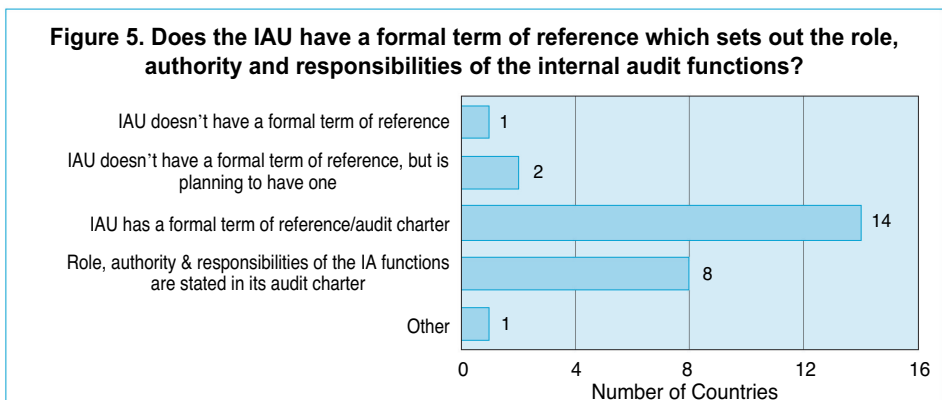
2.1.4 Funding

The audit function must have sufficient funding to carry out its mission. The IIA recommend that funding should not be left under the control of the organization being audited, because the budget impacts the audit function’s capacity to carry out its duties. The fund can be used to carry out internal audit activities through an annual budget of the governmental entity, through allocation by the chief executive officer, or through the Audit Committee. Setting of the funding source is a significant issue for IAUs, since achieving financial independence is important for operating effectively. The survey results showed that funding is provided by an annual budget of the ministry/department in 76.9 percent of responding SAIs (20 of 26 SAIs). Whereas the best practice is the legislated funding, none of the respondent countries chose that option.

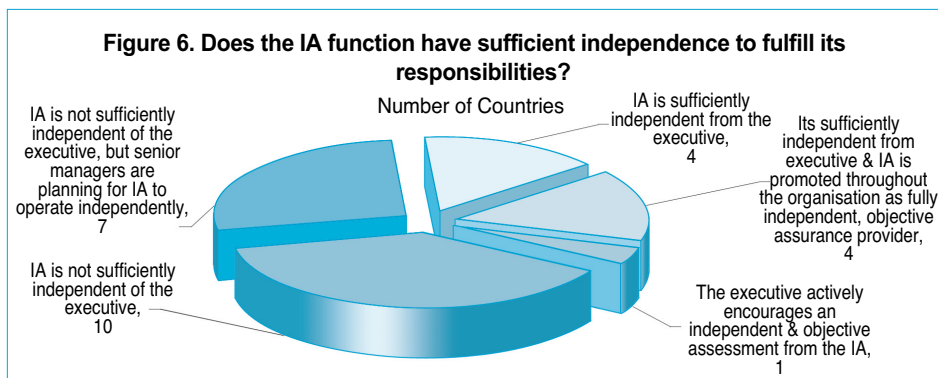


2.1.5 Authorities/Responsibilities, Independence, and Environment

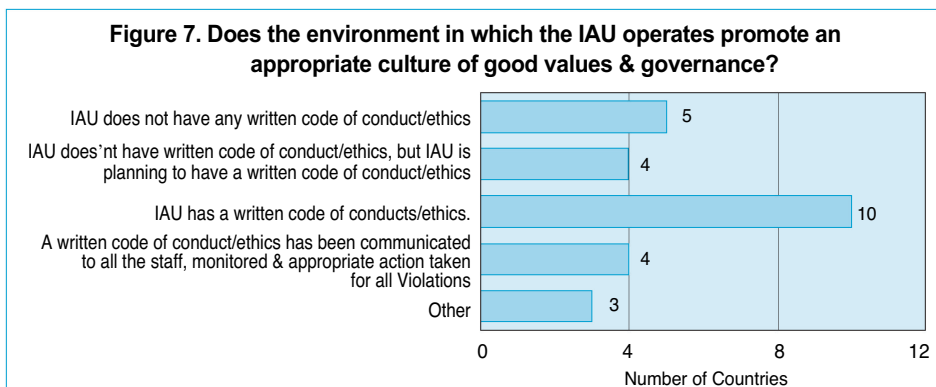
2.1.5.1 Internal auditing is conducted in diverse legal and cultural environments — within organizations that vary in purpose, size, complexity, and structure — by persons within or outside the organization. By means of having a formal term of reference to set out the role, authority, and responsibilities of the internal audit functions, 53.8 percent of respondents (14 out of 26 SAIs) indicated that they do have a formal term of reference/audit charter. Additionally, 30.8 percent of respondents (8 out of 26 SAIs) revealed that the authority and responsibilities of the internal audit functions are clearly stated in their audit charter. The audit charter is an indicator of good governance, and the IAUs should exert maximum efforts to distribute and communicate the audit charter to the auditors within their governmental entity.



2.1.5.2 Among 26 SAIs that responded to whether the internal audit functions have sufficient independence to fulfill its responsibilities, only 38.5 percent of respondents (10 of 26 SAIs) answered that internal audit is not sufficiently independent of the executive. Additionally, 26.9 percent (7 out of 26 SAIs) agreed that they are not sufficiently independent but added that senior managers are planning for internal audit to operate independently of the executive. The majority of SAIs indicated that IAUs suffer from lack of independence.



2.1.5.3 An important factor in the professionalization of internal audit is to create a solid ethical climate within the organization. A key element needed to enhance such an environment is the promotion of good values and good governance. As for the environment in which the IAU operates to promote an appropriate culture of good values and governance, 38.5 percent of respondents (10 out of 26 SAIs) agreed that the IAU has a written code of conduct/ethics. However, only 5 SAIs (19.2 percent) answered that the IAU does not have any written code of conduct/ethics. Also, 15.4 percent of respondents (4 out of 26 SAIs) reported that the IAU does not have written code of conduct/ethics but is planning to adopt one. Another 4 SAIs replied that a written code of conduct/ethics has been communicated to all staff in the organization, and has been monitored and that appropriate action has been taken for all violations. The majority of SAIs replying to the survey either have a written code or are in the process of having and approving it by the related authorities.



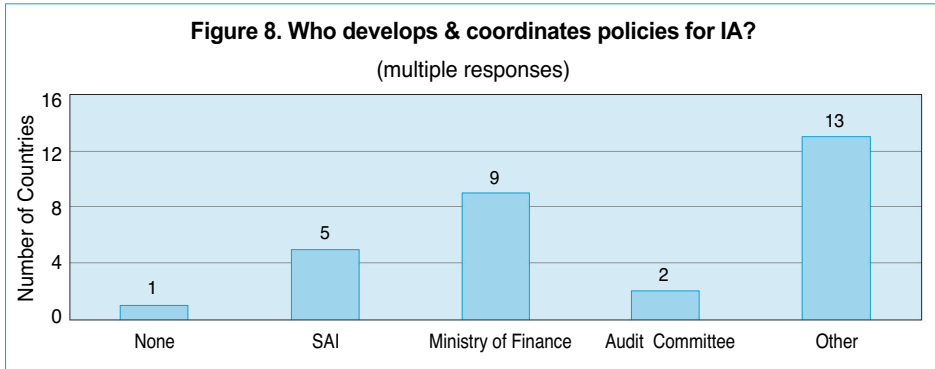
2.2 Organizational Structure

Organizational structure refers to the positioning of the internal audit activity within the administrative infrastructure of the organization, including the relationship of the head of the IAU with senior management. According to INTOSAI GOV 9140, the ability to achieve internal audit independence is contingent upon the appropriate placement and/or organizational status of the IAU within the organization. Our survey was designed and implemented to cover several elements that are relevant to the structure. Accordingly, organizational structure has five sub-elements, which are discussed in sequence in this report as follows: 1) central internal audit policy unit (the bodies that develop and coordinate policies for internal audit); 2) centralization versus decentralization (the structure of the IAUs); 3) rank of the head of the IAU (the organizational position of the head of the IAU); 4) scope of internal audit; and 5) functions of internal audit.

2.2.1 Central Internal Audit Policy Unit

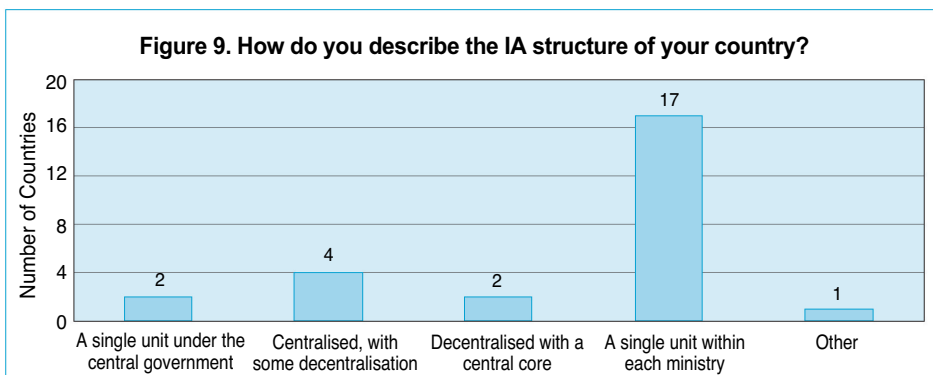
According to the survey, about 34.6 percent of respondents (9 out of 26 SAIs) agreed that the Ministry of Finance develops and coordinates policies for internal audit. Among those 9 countries, 2 countries involve the Ministry of Finance and SAI in developing and coordinating policies for internal audit. The SAI coordinates the internal audit policy in 5 countries. The remaining countries responded that there are various authorities that develop and coordinate policies for internal audit such as the head of IAU, the head of department or senior

management, or the internal audit commissioner. The survey results indicated that approximately half of the responding countries lack a central unit for developing and coordinating policies for internal audit.



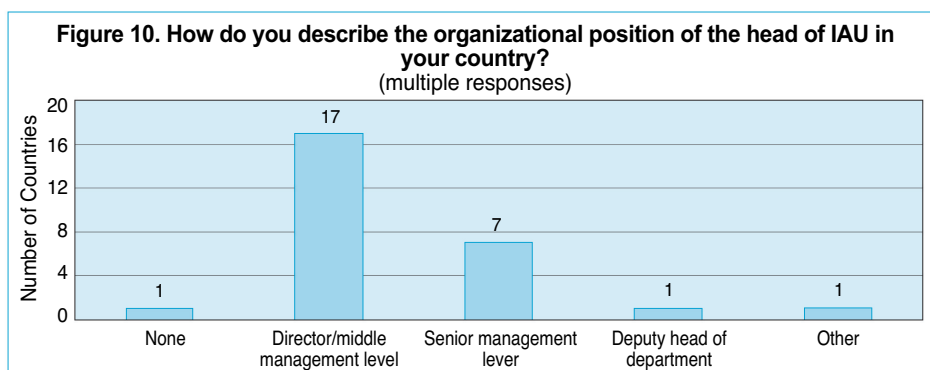
2.2.2 Centralization vs. Decentralization

The structure of the IAU is essential, if internal auditing is to assure its independence and objectivity. According to the survey results, 65.4 percent of the respondents (17 of the 26 SAIs) stated that internal audit structure is a single unit within each department/ministry, as auditors are part of a larger organizational unit. Additionally, 15.4 percent of respondents (4 out of 26 SAIs) revealed that the internal audit function is centralized with some decentralization. The results showed that the majority of the responding countries have a single internal audit unit within each ministry/department at the central government level.



2.2.3 Rank of the Head of the IAU

The organizational position of the head of the IAU supports the independence of internal audit. The higher the rank, the higher is the level of assurance that the IAU carries out its responsibilities in an objective, unbiased manner. Regarding the organizational position of the head of internal audit, 65.4 percent of respondents (17 out of 26 SAIs) stated that the head of the IAU is the level of director or middle management, whereas 26.9 percent of respondents (7 out of 26 SAIs) reported that the head of the IAU is at the level of senior management. In 3 countries, the heads of the IAUs are at the senior management level in some ministries/departments and at the middle management level in other ministries /departments. The survey results indicated that the heads of IAUs in the majority of responding countries are the middle management level, which might impair independence of internal audit.

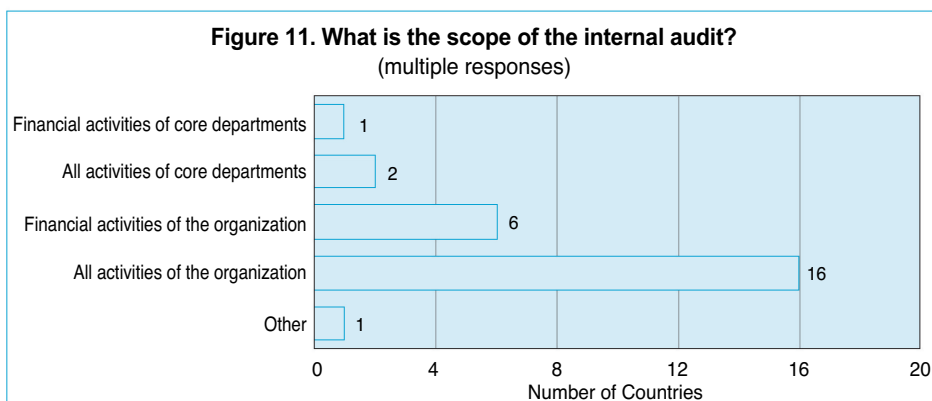


2.2.4 Scope of Internal Audit

The internal audit activity provides assurance that internal controls in place are adequate to mitigate the risks, that governance processes are effective and efficient, and that organizational goals and objectives are met¹⁾. In order to achieve such assurance the scope of internal audit encompasses the examination and evaluation of the adequacy and effectiveness of the following aspects of an organization: i) governance; ii) risk management process, iii) system of internal

1) The Institute of Internal Auditors (IIA) - What is internal auditing? -

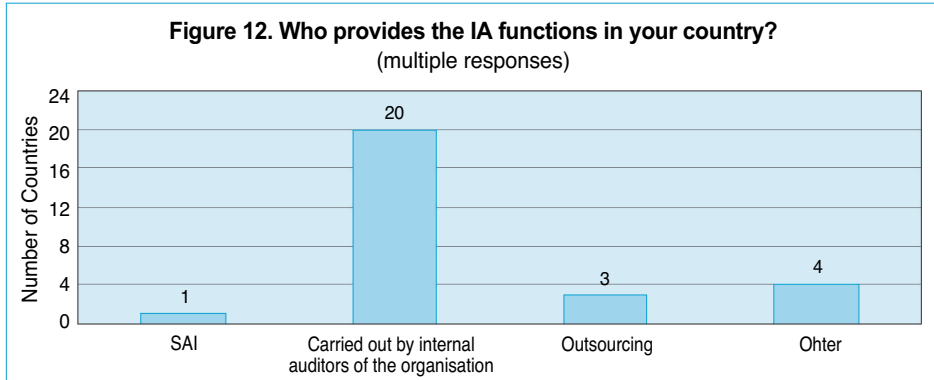
control structure, and iv) quality of performance in carrying out assigned responsibilities to achieve the organization’s stated goals and objectives²⁾. According to the survey results, 61.5 percent of respondents (16 out of 26 SAIs) stated that the scope of the IAU covers all activities of the entire organization. However, 23.1 percent of respondents (6 out of 26 SAIs) reported that the scope of the IAU covers only the financial activities of the organization. The results indicated that the scope of the internal audit function in most countries which responded to the survey are broad, covering all activities of the entire organization.



2.2.5 Internal Audit Functions

The internal audit functions can be provided and carried out by internal auditors of the organization or can be outsourced. According to the survey results, as indicated by 76.9 percent of respondents (20 out of 26 SAIs), the internal audit functions are provided by internal auditors of the organization. In 3 out of these 20 countries — Armenia, China, and Pakistan — the internal audit function is also in part outsourced. In Indonesia, it is reported that the internal audit function is carried out by internal auditors and supervisory agency for finance and development. The survey results showed that, in the majority of the responding countries, the internal audit function is carried out by internal auditors in the central government and that outsourcing is not prevalent.

2) The Institute of Internal Auditors (IIA)- Louisiana State University Center for Internal Auditing Charter



2.3 Standards and Review System

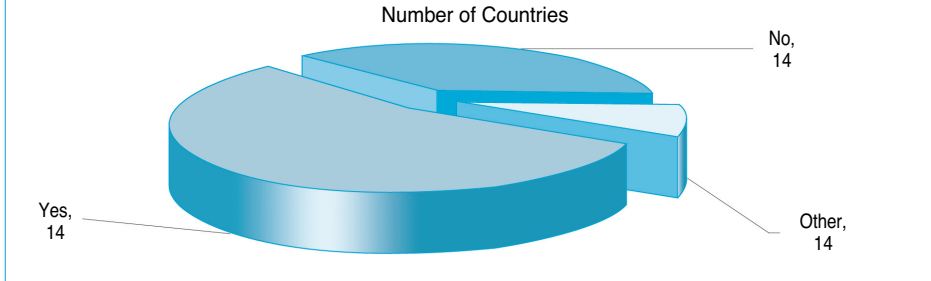
Standards and review systems focus on the standards and instruments used to carry out the auditing tasks and on assessing the performance of the internal audit function. Professional standards, including IA policies and processes, are required in order for the internal audit activity to be performed effectively and with due professional care. IAUs need standards and the review system as a means to develop and to maintain quality assurance, which helps enhance the capacity of the IA activity to comply with standards and organization’s priorities. Four criteria used to assess the standards and review system include:

- Existence of generally accepted standards/guidelines for the IAU;
- Compliance of internal audit with IIA Standards;
- Existence of quality assurance measures for the IAU; and
- Existence of measurement tools to assess the performance of the IAU.

2.3.1 Standards, Standard Setter & Guidelines

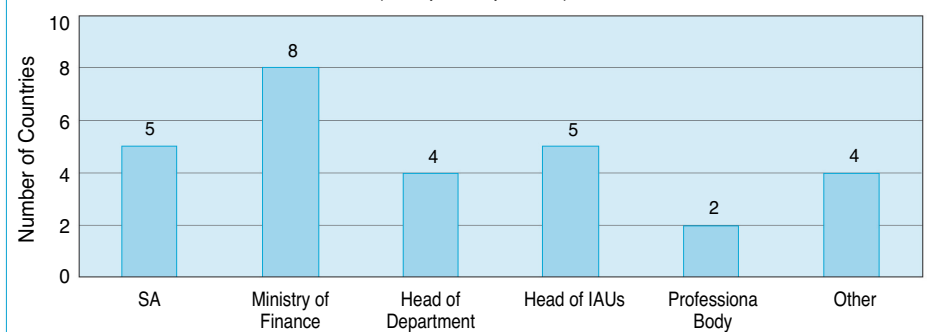
2.3.1.1 Internal auditors are expected to perform their duties based on generally accepted standards in order to secure independence and professionalism and to enhance the quality of audits. 53.8 percent of respondents (14 out of 26 SAIs) answered that internal auditors perform their duties based on the generally accepted standards of internal auditing. The remaining countries reported not having the generally accepted standards for internal auditing.

Figure 13. Does the internal auditor perform his/her duty based on the generally accepted standards?



2.3.1.2 As for standard setters, the Ministry of Finance, the SAI, the head of the department or IAU, and other bodies are involved in establishing auditing standards. According to the survey results, the standards setter is the MOF for 8 countries (30.8 percent), the head of the department for 4 countries (15.4 percent), the head of the IAU for 5 countries (19.2 percent), a professional body for 2 countries (7.7 percent), and the SAI for 4 countries (15.4 percent). In 5 countries, namely Cambodia, Indonesia, Iraq, Malaysia and Saudi Arabia, internal audit standards are determined by multiple bodies. For instance, internal audit standards in Malaysia are determined by various institutions: the MOF, the SAI, the head of the department, the Audit Committee, and the head of IAU. In Cambodia and Iraq, both the SAI and Ministry of Finance are involved in setting up internal audit standards.

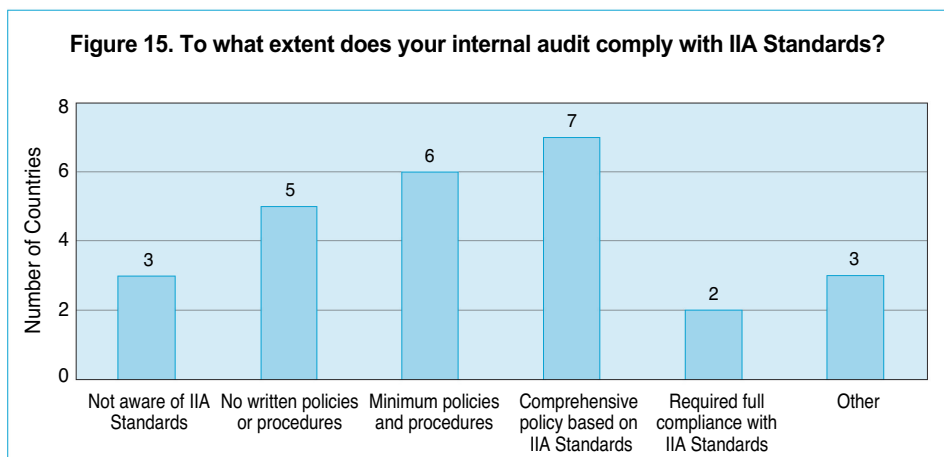
Figure 14. Who determines the standards of the IAU?
(multiple responses)



2.3.1.3 Respondents were also asked whether the IAU has manuals or guidelines to guide the auditors in carrying out their auditing task. 73.1 percent of the respondents (19 out of 26 SAIs) answered that their countries have audit manuals or guidelines. The results indicated that IAUs issue audit manuals or guidelines even when there are no generally accepted standards.

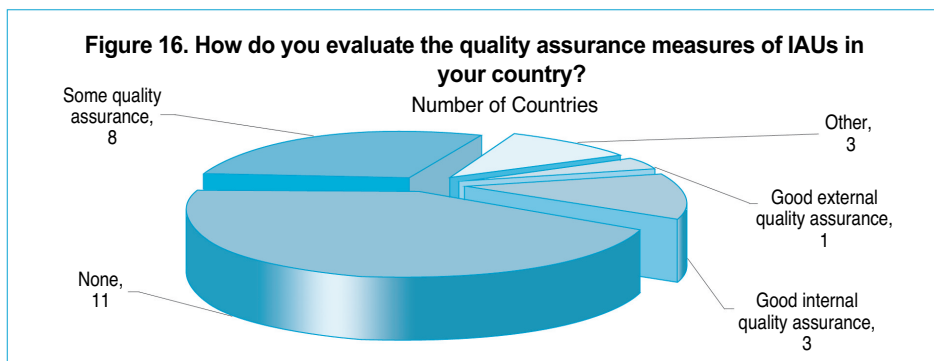
2.3.2 Compliance with IIA Standards

The IIA has published standards and a code of ethics for the practice of internal auditing. These standards and code are utilized in both private and public sectors in many countries. Internal auditors are expected to understand the standards and to adopt or modify them in order to suit their own environments. Respondents were asked to what extent internal audit in their countries complies with IIA Standards. In 8 out of 26 countries (30.8 percent), the internal audit units are neither aware of IIA Standards nor have written policies. 23.1 percent of responding countries (6 out of 26 countries) have minimum policies and procedures, including some performance standards. 34.6 percent of the respondents (9 out of 26 SAIs) answered that they established a comprehensive policy or procedure manual based on IIA Standards, including attribute standards, or required full compliance with IIA Standards. Thus, the internal audit in over half of the countries which responded to the survey has fully complied with internationally accepted standards or at least has adopted some performance standards.



2.3.3 Quality Assurance System

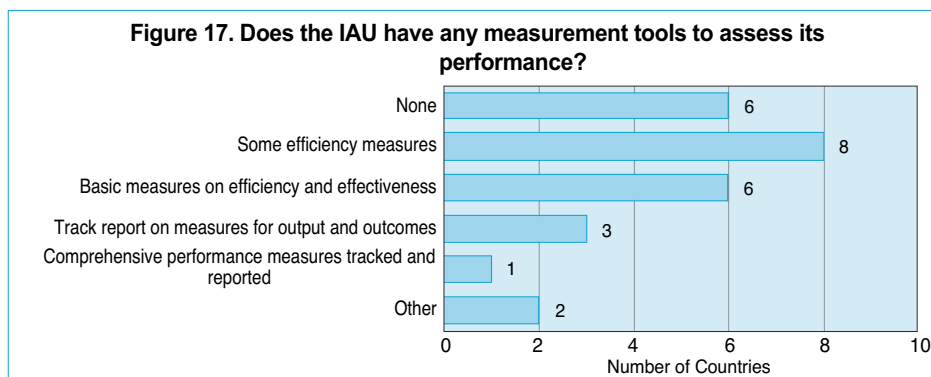
The IIA Standards require that the chief audit executive develop and maintain a quality assurance and improvement program, which must include both internal and external assessments. According to the survey results, some quality review of the internal audit function is conducted in 11 countries, while 4 countries conduct either good internal or external quality reviews. 30.8 percent of the respondents (8 out of 26 SAIs) stated that they do not have any quality assurance mechanisms. None of the responding countries has both internal and external review systems. The results showed that there is almost equal division between those countries having quality review and those countries lacking quality review.



2.3.4 Measurement Tools used to assess IAU's Performance

It is important for the internal audit function properly to utilize performance measures in order to communicate the value of the function to management. The IIA Standards require that all internal quality assessments include ongoing monitoring of the performance of the internal audit activity. 53.8 percent of the respondents (14 of 26 SAIs) either have some measures of efficiency (8 SAIs) or have basic measures of both efficiency and effectiveness (6 SAIs). 23.1 percent of respondents (6 out of 26 SAIs) stated that they do not have any measurement tools, while 11.5 percent of respondents (3 out of 26 SAIs) stated that they track and report on measures for outputs and outcomes. Only 1 out of 26 responding countries tracks and reports on comprehensive performance measures. An additional 3 SAIs responded that they track and report on measures for outputs and outcomes. The survey results showed that over fifty percent of responding

countries do not assess the performance of IAUs or only have some output measures.



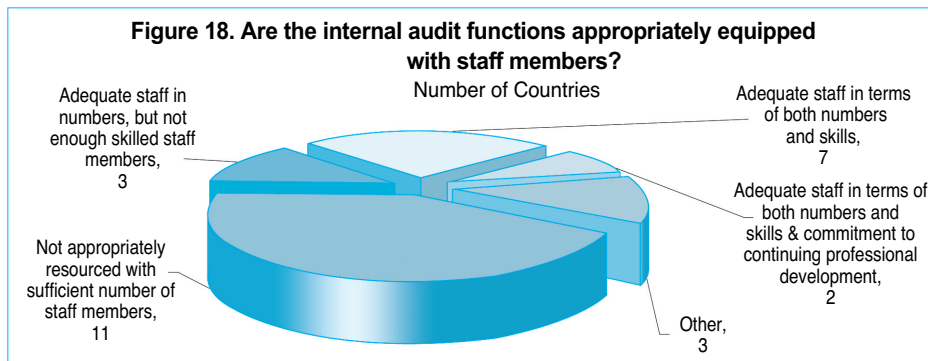
2.4 Human Resources

The fourth core element, human resources, focuses on those professional internal auditors who perform the core set of the internal audit functions. Human resources management spans the whole process from identifying specific attributes and job requirements to providing training and professional development opportunities. It is desirable to have professionally competent internal auditors and to create a work environment that enables them to perform to the best of their abilities. In the survey, the human resources element of internal auditing includes 1) sufficiency and competency of staff (whether IAUs recruit and maintain sufficient staff members with adequate skills), 2) the qualifications of internal auditors, and 3) tools and technology.

2.4.1 Sufficiency and Competency of Staff

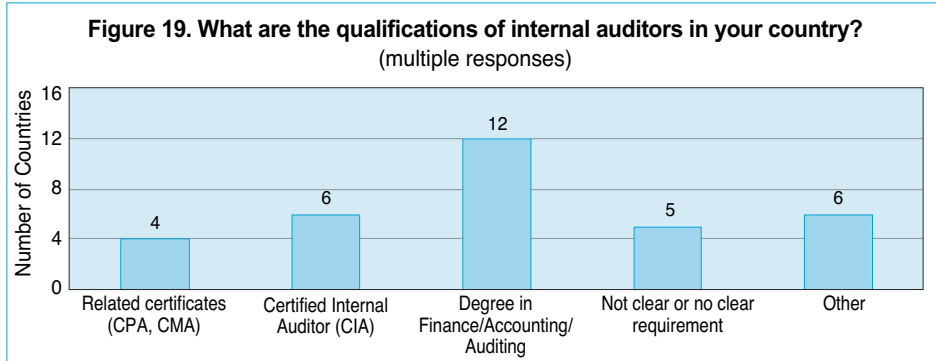
Attracting and retaining sufficient and competent staff are essential for the internal audit function to meet expectations and to add value to the organization. Respondents were asked whether the internal audit function is appropriately equipped with staff members, given the size of its audit responsibilities. According to the survey results, 42.3 percent of the respondents (11 out of 26 SAIs) answered that their country's internal audit body is not appropriately staffed in terms of numbers. 11.5 percent of respondents (3 out of 26 SAIs)

stated that they have adequate staff members but lack skilled staff to deliver the audit strategy. On the other hand, the results showed that the internal audit function in 9 countries has adequate staff in terms of both numbers and skills to carry out their responsibilities. Two of these 9 countries (Cyprus and Malaysia) also reported their commitment to continuing professional development. The survey results showed that IAUs in over half of responding countries have problems with staffing either in terms of numbers or skills.



2.4.2 Qualifications and Attributes of Internal Auditors

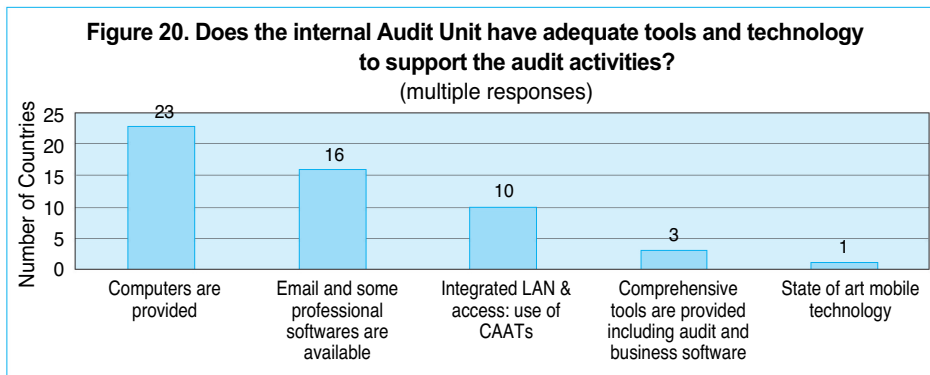
2.4.2.1 Governments often impose minimum requirements for becoming an internal auditor. The IIA Standards prescribe that internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities, and that internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications offered by the IIA and other professional organizations. The most frequently cited requirement for internal auditors is a degree in finance, accounting, or auditing; about 46.2 percent (12 out of 26 SAIs) provided this response. Ten countries require that internal auditors acquire certificates, such as CIA, CPA, etc. Six countries have multiple requirements, with a combination of degrees and certificates. For 5 out of 26 countries, there are no clear requirements for employment as an internal auditor. Thus, the survey results indicated that most countries require degrees and certificates related to auditing. In India, officials who have experience in the field of auditing are preferred. In Korea, officials are required to have work experience as well as audit-related certificates and degrees.



2.4.2.2 Additionally, survey respondents were also asked to identify the three most required skills which internal auditors must have in order to fulfill the internal audit functions. For these skills the respondents identified analysis, reasoning and communication. This result indicated that there is a need for further training programs for internal auditors to develop necessary skills in addition to their qualifications for the recruitment.

2.4.3 Tools and Technology

The internal audit unit must have adequate tools and technology in order to support audit activities. According to the survey results, 88.5 percent of respondents (23 out of 26 SAIs) stated that computers are provided to support internal audit activities. The survey results further showed that in 61.5 percent of responding countries (16 out of 26 countries), email and some professional software are available for 61.5 percent of responding countries while integrated Local Area Network (LAN) with web access and use of Computer Assisted Auditing Techniques (CAATs) are available for 38.5 percent of responding countries. 11.5 percent of respondents (3 out of 26 SAIs) stated that internal auditors use comprehensive tools such as audit and business software, and state of the art mobile technology; only 15.4 percent of responding countries reported that they utilize modern technology.



2.5 Services and the Role of Internal Auditing

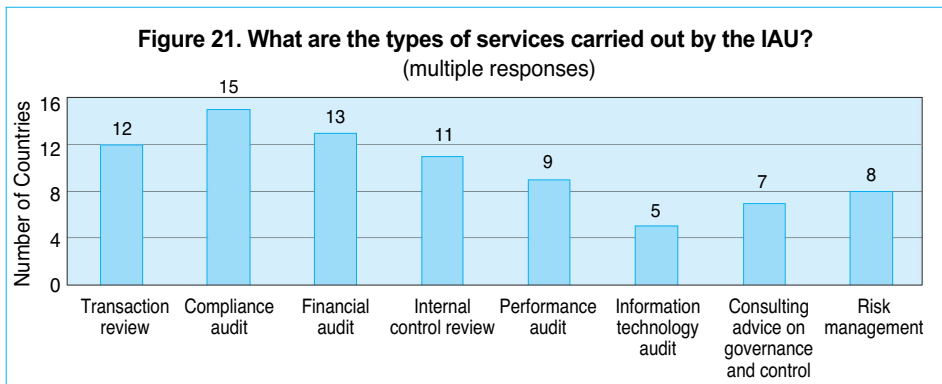
Services include the provision of assurance, consulting/advisory activities, and the conducting of various types of audits. There can be audits of transactions, compliance, systems, processes, operations, performance (or value-for-money), information technology, and financial statements and systems. Public sector auditing has broadened its focus from individual transactions to control systems and program operations. The services provided by IAUs vary among ASOSAI nations and depend on the needs, scope, and capacity of the respective IAUs. The role of internal audit, as stated in the IIA Standards, is to provide independent and objective assessment in order to assist the organization in accomplishing its objectives and to improve its operations. In the survey, the assessment criteria for internal auditing services include:

- Types of services carried out by IAUs;
- Internal audit planning and review of audit plans;
- Extent to which the internal audit plan has been achieved;
- Role of IA in promoting an efficient and effective system; and
- Level of follow-up on internal audit reports and recommendations.

2.5.1 Types of Internal Audit Services

The internal audit function has broadened its focus from individual transactions and compliance to control systems and program operations. Internal auditing has

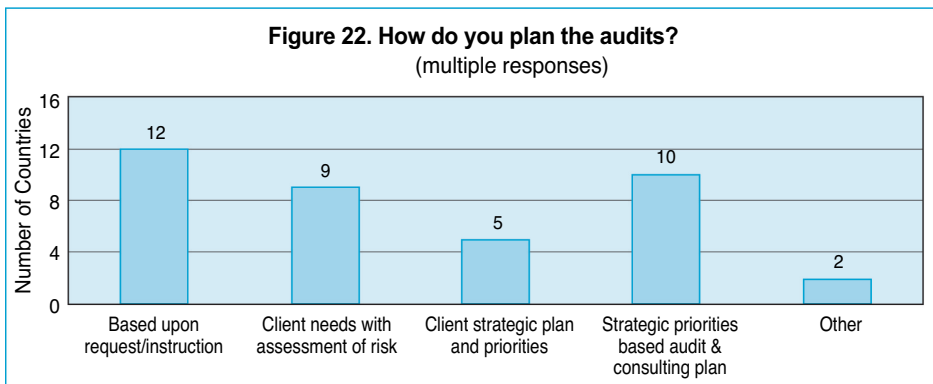
become an important element of good governance, and governments around the world are increasingly focusing on the performance of the public sector, which has led to increasing use of performance audit. Most countries carry out various types of audits, including compliance audit, financial audit, internal control review, performance audit, etc. According to the survey results, the most common type of internal audit carried out by ASOSAI member countries is compliance audit, followed by financial audit, transaction review, and internal control review. Only 50 percent of respondents (9 out of 18 MOFs) responded that the IAUs in their countries carry out performance audit along with other types of audits. Consulting services (advice on governance and control) are offered by IAUs in 38.9 percent of responding countries (7 out of 18 countries). Risk management is performed by IAUs in 44.4 percent of responding countries (8 out of 18 countries). The survey results showed that the majority of responding countries focus on compliance and financial audits.



2.5.2 Audit Planning and Review of Audit Plans

2.5.2.1 The IIA Standards require that the head of the IAU establish risk-based plans for determining the priorities of the internal audit activity, consistent with the goals of the organization. The plan of engagements of the internal audit activity must be based on a documented risk assessment, undertaken at least annually. According to the survey results, internal audit planning is based upon request or instruction for 66.7 percent of responding countries (12 out of 18 countries); is based on client needs with assessment of risk for 50 percent of responding countries (9 out of 18 countries); is based on client strategic plan and

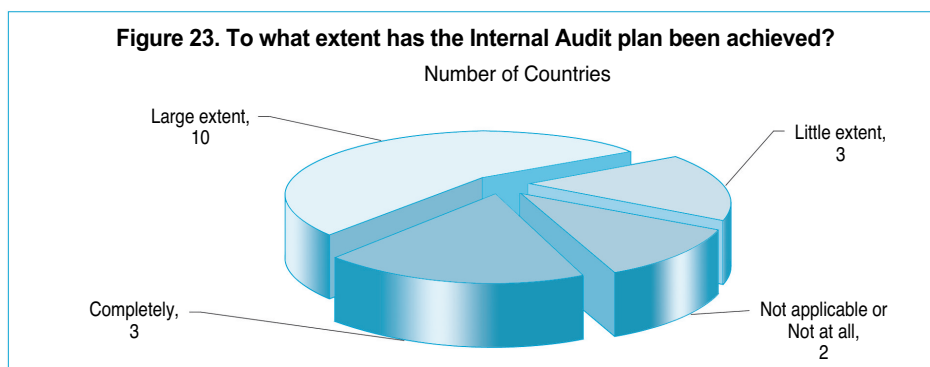
priorities for 27.8 percent of responding countries (5 out of 18 countries); and is a strategic priorities-based audit and consulting plan for 55.6 percent of responding countries (10 out of 18 countries). Thus, the most frequent sources of internal audit planning by IAUs are firstly according to request/instruction and secondly according to a strategic priorities-based audit and consulting plan. In establishing their internal audit plans, the IAUs in some countries consider client needs with risk assessment and consider client strategic plan and priorities. However, the survey results did not ensure that the IAUs have established formal and documented risk assessment procedures and have required taking the results of a formal risk assessment into account, while creating the annual internal audit plan.



2.5.2.2 Sources for assessment for review of audit plans and subsequent feedback include the minister/deputy minister, the head of the IAU, the Audit Committee, and/or a study conducted by the IAU. According to the survey results, the internal audit plan in their countries is reviewed by the minister or deputy minister for 50 percent of responding countries (9 out of 18 countries), by the head of IAU for 44.5 percent of responding countries (8 out of 18 countries), and by senior management for 22.2 percent of responding countries (4 out of 18 countries). A study conducted by the IAU is a review mechanism which is used in 38.9 percent of responding countries (7 out of 18 countries). Less than thirty percent of respondents (5 out of 18 countries) used multiple sources. For instance, Iraq utilizes feedback from SAI and minister/deputy minister. In Malaysia, feedback from the minister or Audit Committee is considered. Armenia reported using the survey results of external parties, feedback from the

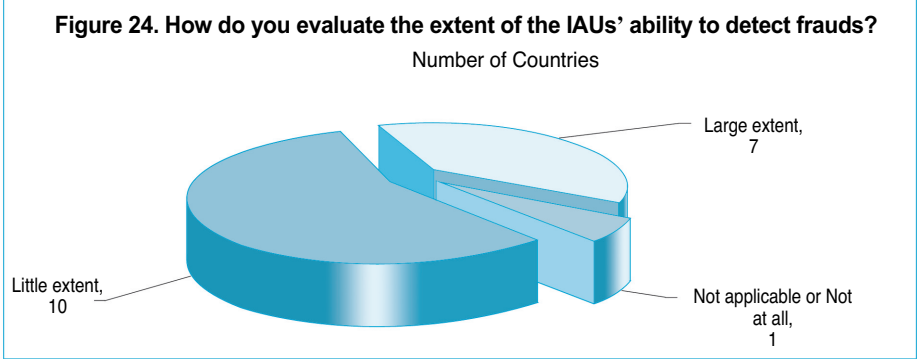
minister or deputy minister, and the study conducted by IAU.

2.5.2.3 The IAUs were also asked to what extent the internal audit plan has been achieved. About 72.2 percent of respondents (13 of 18 MOFs) answered that the internal audit plan has been achieved to a large extent or completely. 16.7 percent of respondents (3 out of 18 MOFs) stated that the internal audit plan has been achieved only to a little extent. The survey results indicated that the majority is carrying out audits as planned.



2.5.3 Role of Internal Audit

2.5.3.1 In the survey, the assessment of current internal audit practices in promoting an efficient and effective internal audit function is included in the context of risk management and fraud detection. Positive answers were provided by nearly half of the countries which responded to the survey questions on the role of internal audit in the risk management processes. 22.2 percent of respondents (4 out of 18 MOFs) stated that internal auditors provide active continuous support in risk management. Thus, internal audit plays an important role in the risk management process. In terms of the IAU's role in detecting fraud, 55.6 percent of responding MOFs (10 MOFs) said that the internal audit function is somewhat able to assist with fraud detection. On the other hand, 38.9 percent of responding MOFs (7 out of 18 MOFs) evaluated internal audit as more active in fraud detection, saying that the IAU is able to assist to a large extent.



2.5.3.2 The survey asked the IAUs whether the internal audit processes promote an efficient and effective internal audit function. The survey results showed that 55.6 percent of respondents (10 out of 18 MOFs) are aware of the need to develop appropriate internal audit processes, or that, in their countries, internal audit processes are being developed in accordance with IIA Standards and good practices. In 22.2 percent of responding countries (4 out of 18 countries), the internal audit function is adequately equipped with audit processes that allow the function to perform its responsibilities competently. 22.2 percent of responding MOFs (4 out of 18 MOFs) stated that the internal audit processes are fully embedded in the internal audit function, significantly improving the performance and capabilities of the internal audit function.

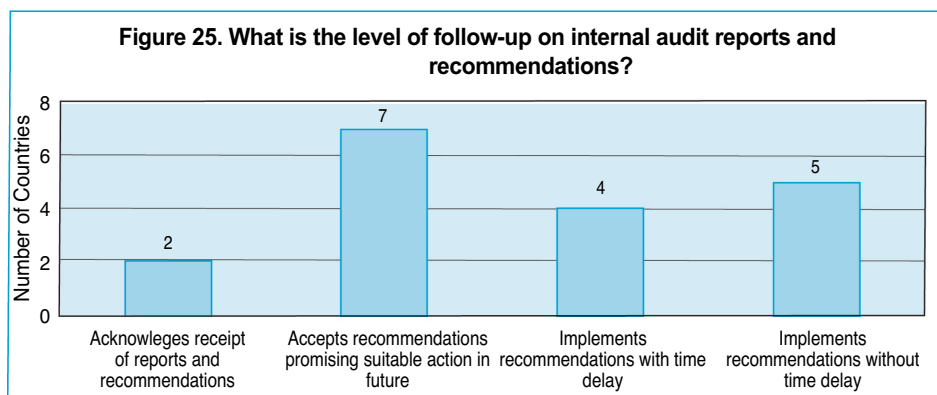
2.5.3.3 Audit product quality is an important measure of audit effectiveness. Therefore, the survey asked the MOFs to assess audit products. Positively, 50 percent of responding MOFs (9 out of 18 MOFs) believed that, in their countries, the internal audit function adequately communicates audit opinions and advice in a timely manner, or that audit products are communicated expertly and are well received and understood. Negatively, another 50 percent of respondents (9 out of 18 MOFs) believed that, in their countries, current audit products do not appropriately contribute to the objectives of the organization. Nevertheless, 6 out of these same 9 countries reported that the IAUs in their countries are currently developing and implementing plans to produce appropriate audit products.

2.5.3.4 Overall, positive answers were provided by nearly half of the countries which responded to the survey questions on the role of internal audit in the risk management process, in fraud detection, or on the effectiveness of audit products.

The remaining countries are developing appropriate internal audit processes or plans in order to provide appropriate audit products for enhancing an efficiency and effectiveness of the internal audit function.

2.5.4 Follow-up on audit findings and recommendations

It is the responsibility of management to implement audit recommendations and to ensure audit closure. The IIA Standards prescribe that the head of the IAU must establish and maintain a system for monitoring the disposition of results communicated to management. The survey asked respondents to assess the level of follow-up on findings and recommendations in the internal audit reports. According to the survey results, 50 percent of respondents (9 out of 18 MOFs) answered that management acknowledges receipt of reports and recommendations (2 countries) or accepts recommendations promising suitable action in future (7 countries). The remaining 50 percent of respondents (9 out of 18 MOFs) stated that management implements recommendations with time delay (4 countries) or without time delay (5 countries). Despite the requirements in the IIA Standards, none of the responding countries has a system for regular review of findings, for implementation of recommendations in the internal audit reports, or for prevention of recurrence.



3. Survey Results: Constraints and Improvements to IAU Functioning

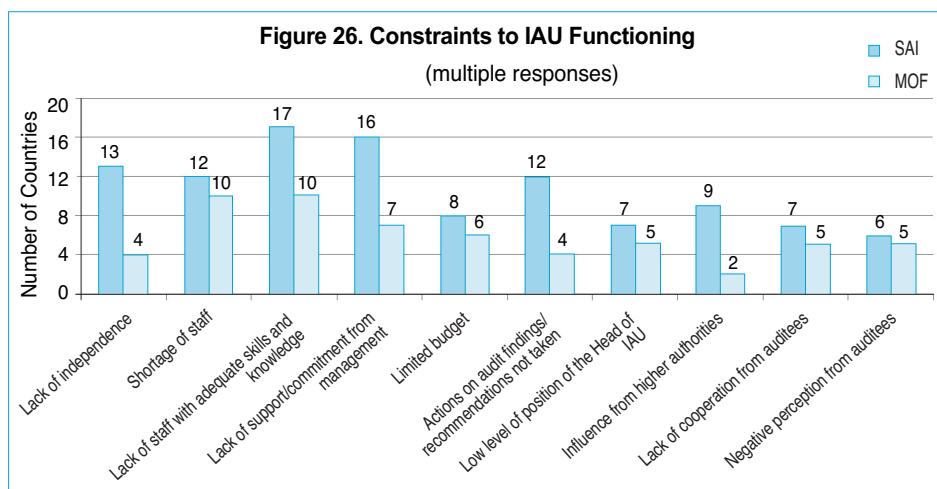
This sub-section highlights the research findings — from the perspectives of the Supreme Audit Institution (SAI) and the Ministry of Finance (MOF) — on the constraints in the functioning of the Internal Audit Units (IAUs) and on the improvements which are necessary. For the purpose of identifying the constraints and suggesting improvements, pre-testing of questionnaires was conducted amongst 12 participating SAIs. From the feedback of the respondents, this pre-testing identified 10 constraints and 9 ways of improving the functions of the IAUs.

Table 1. List of Constraints and Improvements to IAU Functioning

Constraints	Improvements
<ul style="list-style-type: none">• Lack of independence• Shortage of staff• Lack of staff with adequate skills and knowledge• Lack of support and commitment from management• Limited budget• Actions on audit findings and recommendations not taken by management• Low level of position of the Head of Internal Audit Unit• Influence from higher authorities• Lack of cooperation from auditees• Negative perception from auditees	<ul style="list-style-type: none">• Legal mandate for establishing Internal Audit Unit• Ensuring the independence of Internal Audit Unit• Active application of internationally accepted internal auditing standards• Providing sufficient budget• Increasing the number of staff• Providing training programs• Providing incentives for internal auditors• Improving audit quality• Promoting the use of computer assisted technology and audit software

3.1 Constraints to IAU Functioning

3.1.1 In this study, the respondents from the SAI and the MOF were requested to identify the constraints which affected their internal audit functions from the given list. The results from these two perspectives are shown in the following chart.



3.1.2 From the perspective of SAIs, as the highest priority constraint, 65.4 percent of the responding SAIs (17 out of 26 SAIs) identified “lack of staff with adequate skills and knowledge”, which could threaten to slow down the pace at which the internal audit function is developing and consequently which could reduce the benefits that the government could gain from this function. The next constraints, identified by at least 50 percent of the SAIs, were lack of support and commitment from management towards the IAU function and lack of independence. From the perspective of the MOF, more than 50 percent of the countries identified shortage of staff and lack of staff with adequate skills and knowledge as constraints to the effective function of the IAUs.

3.1.3 Lack of staff with adequate skills and knowledge was reported by more than 50 per cent of both the SAIs and the MOFs as a constraint to the effective function of the IAUs. The reason for this constraint could be that no proper auditing trainings are being given to enhance the internal auditors’ knowledge and skills. According to the survey results, 5 countries reported that there is no clear requirement on the qualification of the internal auditors. Thus IAUs are being staffed with personnel having no qualifications or having non-related qualifications.

3.1.4 55.6 percent of the MOFs reported a shortage of staff as a constraint to effective functioning of the IAUs. This constraint is also reflected by the SAIs’ responses as 60 percent of the countries reported that the IAUs are not appropriately

staffed in terms of numbers. These shortages could result in increased workloads for the existing internal auditors. This shortage of staff could also be due to the recruitment policy of the ministries/departments, to vacant posts not being filled, or to a delay in filling the posts.

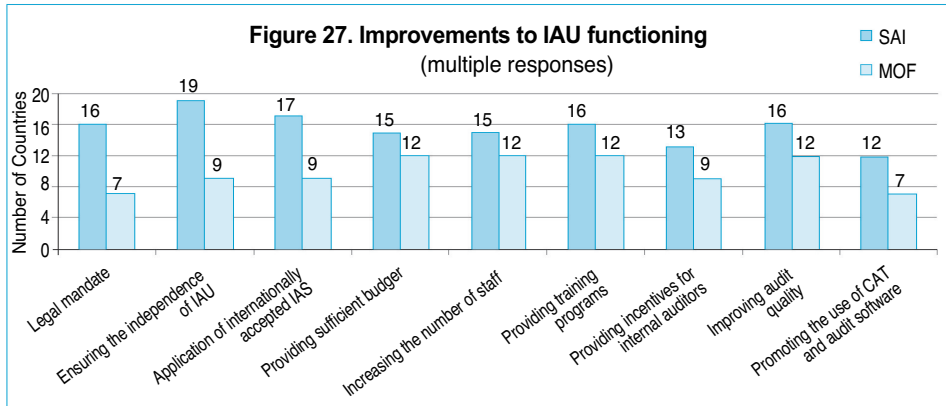
3.1.5 Lack of support and commitment from management was the next identified constraint, as reported by 61.5 percent of responding SAIs (16 out of 26 SAIs). The reason for this lack of support and commitment from management could be due to the fact that the management's not seeing how the current products of the IAUs have added value or have contributed to the objectives of the organization. This constraint was also reported by 38.9 percent of responding MOFs (7 out of 18 MOFs).

3.1.6 Lack of independence of the IAUs was another constraint identified by SAIs. 8 SAIs reported that their internal audit is not sufficiently independent of the executive in fulfilling its duties. In addition, most of the internal auditors report directly either to the minister/deputy minister, to the heads of audited department or to the Chief Financial Officer. Independence of the IAU is also impaired when the members of the Audit Committee include heads of ministries/departments and are chaired by heads of ministries/departments, as reported by the SAIs of Malaysia and Myanmar.

3.1.7 Another constraint identified by the SAI concerned actions on audit findings and recommendations not taken by management. This constraint is supported when 50 percent of the MOFs surveyed reported that management merely acknowledges the receipt of audit reports and recommendations, or just accepts the recommendations while promising suitable action in future, or implements the recommendations with time delay.

3.2 Improvements to IAU Functioning

3.2.1 After identifying the constraints, SAI and MOF respondents were asked to suggest ways of improving the existing practices of the IAU. Their responses are shown below.



3.2.2 More than 50 percent of the SAIs suggested several ways to improve the IAU functions. The improvements included ensuring the independence of the IAU, active application of internationally accepted internal auditing standards, legal mandate for establishing the IAU, providing training programs, improving audit quality, providing sufficient budget, and increasing the number of staff.

3.2.3 At least 50 percent of the MOFs suggested several ways to improve the IAU function. These improvements included providing sufficient budget, increasing the number of staff, providing training programs, improving audit quality, ensuring the independence of the IAU, actively applying internationally accepted internal auditing standards and providing incentives for internal auditors.

III. Relationship between the Internal Audit Units and SAIs

1. Structure of the Questionnaire

1.1 This section seeks to assess the relationship between the SAI and the IAU through analysis of the data inputs to a structured questionnaire issued to the SAIs and the MOFs of the ASOSAI member countries.

1.2 The questionnaire addressed the nature, role, and responsibilities and the reporting structure in order to gain an idea of the authority, scope of audit and independence of the SAI. The questionnaire then sought to address the issue of cooperation and coordination between the SAI and the IAU. The sought information relates to the existence of laws/regulations or a structured framework delineating the relationship between the SAI and the IAU. Further information on interface between the SAI and the IAU has been ascertained through details on audit of internal audit activities by the SAI and on the independent evaluation of the IAU. In the process, the questionnaire sought to rate the extent of cooperation between the SAI and the IAU in audit efforts and to ascertain the level of reliance placed by the SAI on internal audit while conducting various types of audit.

1.3 The questionnaire also ascertained the possibility of convergence between the SAI and the IAU in the risk assessment process, which is a pre-requisite for audit planning, and the questionnaire also sought to identify the areas where there would be the possibility of working together, starting with building up of a common data bank on the audited entity for sharing of audit findings. Finally, the barrier to cooperation and the way out have been analyzed.

1.4 As already stated in the introduction, the questionnaire was revised after pre-test. A common questionnaire was issued for this section to both the SAIs and the MOFs. The SAIs of 26 countries and the MOFs of 18 countries replied to the questionnaire issued to them.

2. Survey Results: Cooperation and Coordination between IAUs and SAIs

2.1 Description of the SAIs

2.1.1 Background

The SAIs are important institutions exercising the power of supervision through auditing independently, thereby ensuring public accountability and fiscal transparency in governmental and other operations in accordance with the prescribed laws. A majority of the countries surveyed have an Auditor General heading the SAI. Some of the SAIs have a collegiate structure with no judicial functions, while two of them are courts with judicial functions. More than 50 percent of the SAIs report to the Legislature/President.

2.1.2 Scope

The scope of audit included all the three major types of audit — compliance, financial and performance — with varying degrees of importance. The SAIs of all the countries surveyed have the responsibility to audit the central government. The power to audit regional and local governments, state enterprises, and other bodies varies from country to country. The Research Project sought to analyze the status in the central government and sought to gain assurance that all the SAIs audit the central government.

2.2 Cooperation and Coordination

2.2.1 Legal Mandate

To assess the extent of cooperation, the questionnaire sought details on the existence of laws or other formal and structured frameworks ensuring relationship between the SAI and the IAU. The survey results showed that in around 60 percent of the countries, there are legal frameworks or formal arrangements to enable meetings between the SAI and the IAU. There are 13 countries which have laws/regulations stipulating the relationship between the SAI and the IAU. They are Afghanistan, Armenia, Cambodia, China, Indonesia, Iran, Japan, Korea, Nepal, Saudi Arabia, Thailand, Turkey and Vietnam. Some

of the laws have effective provisions as follows:

- The Audit Law 2006 of China states that internal auditing is subject to the professional guidance and supervision of the audit institutions;
- The Public Sector Internal Audit Act 2010 of Korea provides for coordination between the SAI and the IAU for avoiding duplication and for improving and developing the public audit system; and
- The State Audit Law of Vietnam 2006 states that the SAI is responsible for directing and instructing on internal audit profession and operation and should also use the results of internal audit.

2.2.2 Meetings between SAI and IAU

In the absence of laws/regulations, an attempt was made to find out whether there was an alternate structured framework for cooperation. The countries surveyed reported that in eight of them there are formal meetings held between the SAI and the IAU at regular intervals in order to understand the entity. They are Australia, Cambodia, Indonesia, Iraq, Japan, Korea, Malaysia and Thailand. The formal meetings are held annually in China and Indonesia; annually and also when the SAI undertakes audit of the entity in Malaysia; semi-annually in Iraq and Japan; quarterly in Thailand; and more than four times in a year in Australia and Korea. In the context of laws/regulations governing the relationship between the SAI and the IAU, the countries in which informal meetings are held between the SAI and the IAU include Afghanistan, Armenia, Nepal, Saudi Arabia, and Turkey.

2.3 Evaluation of Internal Audit by SAI

The survey sought to analyze the interface between the SAI and the IAU through data on external audit / evaluation of IAU and details on the parameters examined during such exercises. The survey results showed that more than 80 percent of the SAIs reviewed internal audit reports or otherwise evaluated the internal audit. Analysis of survey results showed that, in 69.2 percent of responding countries, the SAIs review the internal audit reports in the course of audit. Evaluation of internal audit by the SAI also takes place in 53.8 percent of responding countries (14 out of 26 SAIs). Such evaluations take place when the

SAI undertakes audit in 6 of the countries, every 3 to 5 years in 2 of the countries and annually in 6 of the countries. It may be seen from the above that a large majority of the countries surveyed conduct a review of the internal audit report or an evaluation of the internal audit through the SAIs. While evaluating the Internal Audit, the SAIs gave the following aspects of internal audit more importance: i) internal audit units organizational structure, ii) competency of staff, iii) audit plan and execution, iv) quality of audit activities including audit testing, vi) quality of documentation, vii) quality of audit reports, and viii) implementation of audit recommendations.

2.4 Extent of Cooperation by Areas

2.4.1 After ascertaining the details on evaluation of the IAU, rating on the extent of cooperation between the SAI and the IAU was obtained as it is crucial to deciding on the further course of action. The SAIs surveyed were requested to indicate the grading for the given parameters on a scale of 1-5, with 1 indicating nil and 5 indicating full cooperation. The table below gives the status on the extent of cooperation.

Table 2. Extent of Cooperation by Areas

Characteristics	Never 1	2	3	4	Always 5	No response	Total
Planning of audit work	7	4	5	1	2	7	26
Audit coverage	5	7	5	1	0	8	26
Audit methodology and techniques	8	4	3	2	1	8	26
Audit procedures	8	5	1	3	1	8	26
Exchange of ongoing audit findings	3	6	6	0	3	8	26
Exchanging reports	4	6	4	3	2	7	26
Access to programs and working papers	10	2	3	3	0	8	26
Secondment or lending staff	10	3	3	2	0	8	26

2.4.2 The SAIs of countries mentioned below rated the cooperation at a high degree (as in columns 4 and 5 above) in the areas of audit planning (Afghanistan, Japan, and Malaysia), audit coverage (Iraq), audit methodology (China, Japan,

and Malaysia), audit procedures (China, Iraq, Japan, and Malaysia), exchange of ongoing audit findings (Japan, Thailand, and Malaysia), exchange of audit reports (Armenia, Cyprus, Iraq, Japan, and Malaysia), access to programs and working papers (Armenia, Iraq, and Malaysia), and secondment of staff (Korea and Malaysia). From the above, it is evident that there is a high degree of cooperation in the stated areas in Malaysia and Japan, followed by Iraq, China, and Armenia, and further followed by Afghanistan, Thailand, Cyprus and Korea.

2.4.3 So far as overall rating for the extent of cooperation and coordination is concerned, it is high in countries like Afghanistan, Armenia, China, Iraq, Japan, and Malaysia where there are laws governing relationships or where there is a mechanism for holding formal meetings between the SAI and the IAU. Cambodia, Indonesia, Nepal and Saudi Arabia rated the cooperation at the lower side in spite of a legal framework being available.

2.5 Reliance on Internal Audit Report

2.5.1 After analyzing the interface between the SAI and the IAU, it was necessary to know the extent of reliance placed by the SAI on the IAU while conducting the various types of receipt and expenditure audits and also while conducting the specialized audits like performance and information systems audits.

2.5.2 To the query on the degree of reliance that the SAI places on the IAU's work, the SAIs of Cambodia, Cyprus, and Thailand reported that they place a high degree of reliance on the internal audit in the areas of:

- Compliance;
- Adequacy of internal controls;
- Revenue and receivables and asset accounts;
- Risk management; and
- Compliance with regulatory requirements.

2.5.3 In addition, the SAIs of Cambodia and Cyprus reported that they place a high degree of reliance on the internal audit in the areas of performance/value for money audit and systems audit. The SAI of Cyprus also reported that it places a

high degree of reliance on the internal audit in the information systems audit.

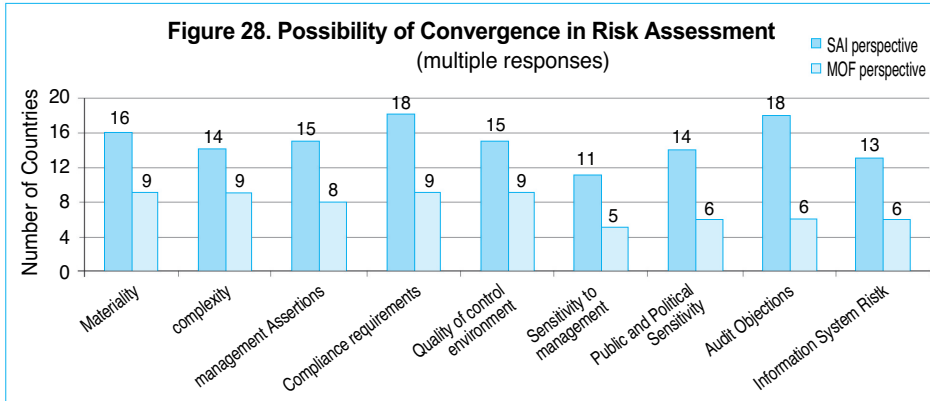
2.5.4 It may be noted that the SAIs of Cambodia, Cyprus, and Thailand rated the extent of cooperation between the SAI and the IAU at the lower side, excepting in one area — planning of audit work/exchange of audit reports and exchange of ongoing audit findings respectively.

2.5.5 All the other SAIs reported moderate to low to nil reliance on the internal audit in conducting various types of audit.

2.6 Possibility of Convergence and Areas for Cooperation

2.6.1 The objective of the research project is to find ways of ensuring effective cooperation between the SAI and the IAU in order to maximize the audit efforts of the member nations. The questionnaire listed the specific areas in the risk assessment process and also the areas where there can be coordination.

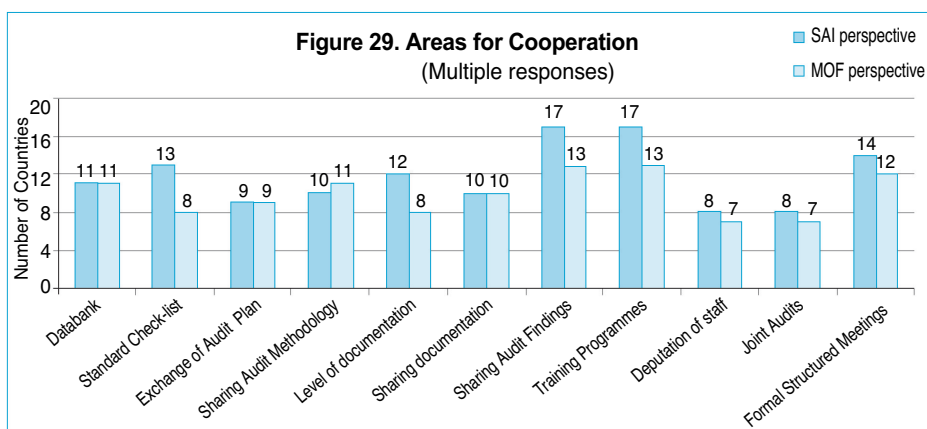
2.6.2 A majority of the SAIs (50 to more than 50 percent) surveyed expressed that there is the possibility of convergence between the SAI and the IAU in the risk assessment process in the following areas: materiality, complexity of activity, management assertions, compliance requirements, quality and stability of control environment, public and political sensitivity and historical data of wrong doing/pending audit objections and risks associated with information systems. From the MOF perspective, it is seen that 50 to more than 50 percent of the countries stated that convergence between the SAI and the IAU is possible in the risk assessment process in the areas of materiality, complexity of activity, compliance requirements and quality and stability of control environment. It may be seen that all the above parameters found a place in the survey results from the SAI perspective also.



2.6.3 To the other question, as to whether there is scope for the SAI and the IAU to work together, 50 to more than 50 percent of the SAIs stated that it would be possible to work together in standardizing check lists for audit areas entailing the sharing audit findings, reports, management letters, action-taken reports and training programs. More than 50 percent of the SAIs surveyed also identified formal and structured meetings between the SAI and the IAU as the area to review and to monitor for the effectiveness of coordination and cooperation. On the possible areas where the SAI and the IAU can work together, the Ministries of Finance of 50 to more than 50 percent of the countries identified the following:

- Building up a common data bank on the audited entity’s key functional areas, including organizational structure, records maintained, risk analysis, and key audit issues;
- Exchanging and aligning of the audit plan to maximize coverage;
- Sharing and development of audit methodology;
- Sharing documentation;
- Sharing audit findings, management letters, and action taken on audit reports;
- Sharing of training programs; and
- Conducting formal and structured meetings between the SAI and the IAU.

The survey results emerging from the SAI perspective also referred to the last three items above as possible areas of convergence.



3. Survey Results: Constraints to Cooperation and Way Out

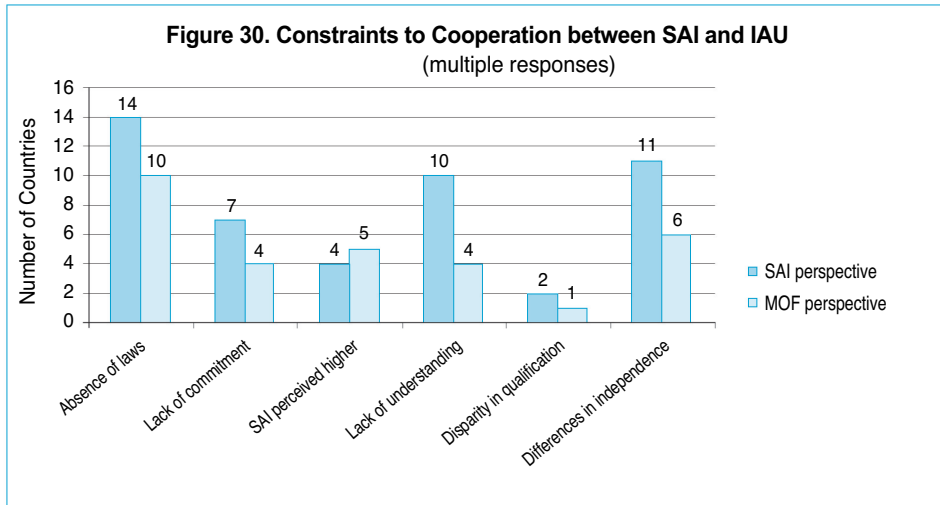
In order to optimize cooperation, there is a need to look at the barriers and the possible solutions. Hence, the questionnaire identified the following from the responses to the pretest.

Table 3. List of Constraints and Improvement to Cooperation

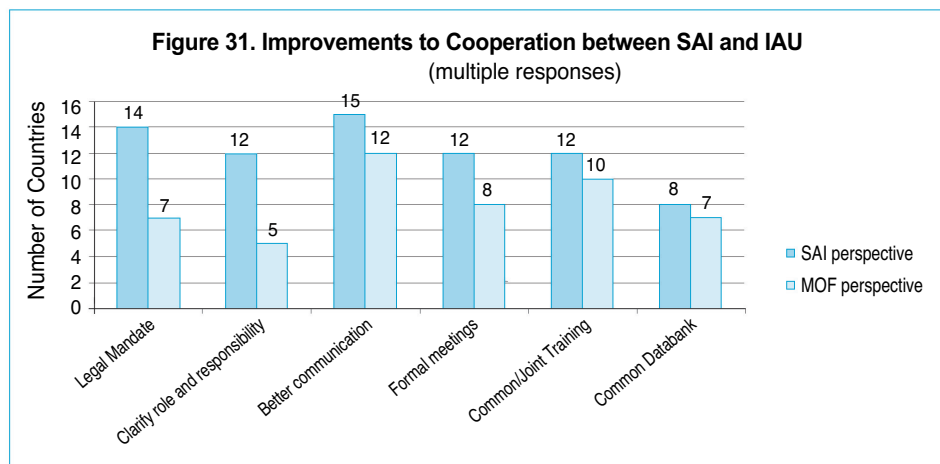
Constraints	Improvements
<ul style="list-style-type: none"> • Absence of law • Lack of commitment • Perception of SAI being higher institution • Lack of understanding of each other's role • Disparity in qualification of SAI and IA auditors • Differences in degree of independence • Others (to specify) 	<ul style="list-style-type: none"> • Legal mandate • Clarifying roles and responsibilities • Better communication between SAI and IAU • Installing formal meetings • Providing common/joint training programs • Building common data bank • Sharing reports/documents

3.1 As the highest priority constraint to cooperation between the SAI and the IAU, 53.8 percent of the responding SAIs (14 out of 26) reported the absence of mandate such as laws, rules, and regulations. From the perspective of the Ministry of Finance, the constraints to cooperation between the SAI and the IAU

identified by more than 50 percent of the countries related to the absence of mandate such as laws, rules, and regulations and also to be differences in the degree of independence as identified by 6 of the respondents. The constraints to cooperation are depicted below:



3.2 Improvement to relationship between the SAI and the IAU as suggested by the countries surveyed is illustrated below:



3.3 The way out suggested for improvement by around 50 to more than 50 percent of the SAIs related mainly to having a legal mandate, to clarifying roles and responsibilities, to establishing better communication between the SAI and the IAU, and to installing formal meetings and common/joint training programs. To improve the relationship, the Ministries of Finance of more than 50 percent of the countries suggested better communication between the SAI and the IAU as the most important area requiring attention. They also identified provision of common/joint training programs as the other major issue to be tackled.

IV. Recommendations and Best Practices

1. Internal Audit System

Internal auditing is a prerequisite for effectiveness and efficiency in public expenditure management. Based on the research findings, constraints, and suggestions to improve the IAU's function from SAIs and MOFs, it is proposed that the following recommendations should be considered to improve the aspects of governance, structure, standards and review system, human resources, and services of the IAUs.

1.1 Existence of Legal Mandate or Regulations

Internal controls are becoming increasingly important. This importance is evidenced in the numerous laws and regulations which require organizations to have an internal audit function. The survey results indicated that independence and objectivity of the IAU can be assured through formal mandate in written laws, such as through the Act of Parliament or cabinet order/decreed or through Ministry of Finance directives (India, Iraq, and Malaysia). However, even in countries where there is no formal mandate, independence still can be maintained and the internal audits still can function efficiently and effectively with proper control mechanisms in place to ensure good governance.

Establishment of IAU Through Legal Mandate - Experience of China, Indonesia, Iraq, Korea, and Saudi Arabia

In China, the Audit Law of the People's Republic of China, which was promulgated in 1994, established the legal status of internal audit. Article 29 states that departments of the State Council and of the local people's governments at various levels shall establish and improve their internal auditing systems in accordance with the relevant provisions of the State. Such internal auditing shall be subject to the professional guidance and supervision of audit institutions.

In Indonesia, Government Law (PP) No. 60 of 2008 of the Republic of Indonesia

stipulates that, under Article 4(d), an IAU must be set up within the government institutions. BPKP, which is the government IAU responsible to the President, supports President Accountability System in managing state finance and in promoting good public governance.

In Iraq, in 2004, the Financial Management and Public Debt (amended Law Order/95) stated that ministries and governmental units should establish IAUs and that the Ministry of Finance is responsible to determine the auditing methods and procedures of the IAUs. In the same year, the Inspector General Office (Law Order/57) stipulated the requirements for and the importance of establishing the IAUs for all ministries and governmental units in order to raise the level of responsibility and to achieve efficient and effective performance.

In Korea, the IAUs are established through the 2010 Public Sector Internal Audit Act. The Act covers the recruitment and removal of the Heads of IAUs, the authority of internal auditors, the internal audit functions in the public sector, the measures for improving the public audit system, the SAI's role in supporting internal audits and so forth.

The Government of Saudi Arabia, in 2004, issued a statute requiring every governmental body in Saudi Arabia to establish IAUs. In 2007, a Uniform Regulation of Internal Audit System (URIAS) was circulated to all governmental bodies. This regulation became the reference for all internal audit practices in governmental agencies. It contains 23 articles that address all important issues and practices of internal audit within governmental sectors. These issues include the following: 1) establishment and structure of IAU, 2) criteria of appointing the Head of the IAU, 3) internal audit functions, responsibilities, and reporting issues.

1.2 Ensuring Independence of the IAU

1.2.1 Structure and Reporting The credibility of all works undertaken by the IAU, apart from the quality of such work, is enhanced by its independent and impartial quality. IAUs should be operating with independence from any influence of the executives and all other departments within the organization. The degree of independence is important as it affects the ability of the Head of the IAU — and of the IAU as a whole — to make significant contributions to good governance. To

ensure the independence of the IAUs, the internal audit function must be appropriately positioned within the organization. Regarding reporting, the IIA Standards stipulate that the Heads of IAUs should report administratively to the Heads of the audited departments and functionally to the audit committee or to another appropriate governing authority.

Structure and Reporting - Experience of Korea and Malaysia

In Korea, internal auditors at the central level in the government report to the Head of the IAU, who, in turn, reports to the minister. The 2010 Public Sector Internal Audit Act requires that the rank of the Head of the IAU be prescribed in related laws and ordinances in order to help maintain independence — considering the number of audited entities, employees in the ministry, the size of budget, and workload. The IAUs in the central government are established under either a minister or deputy minister, and the Heads of IAUs in large ministries and departments are at the senior management level.

In Malaysia, the Heads of internal audit in the federal government are at the director/middle management level or at the senior management level, depending on the size of the ministry or department. Heads of internal audit are encouraged to report functionally to the Audit Committee established through the MOF directive and administratively to the Chief Controlling Officer of the ministry or department.

1.2.2 Establishment of Audit Committee A system of performance monitoring is required to ensure that the performance of internal audit is consistently improved. A properly designed monitoring system can increase the effectiveness of the internal audit function and can help the internal auditors to improve the quality of their work, the quality of their reports, and the overall outcome/impact in terms of improved internal control for effective governance. The functions of an oversight body responsible for internal auditing across the public sector or of the Audit Committee are important to monitor the performance and development of internal audit.

The relationship between internal audits and Audit Committees is important in discharging effective governance. The responsibility of an Audit Committee is to assist the Heads of ministries and departments by providing assurance and by

improving stakeholder's confidence in the integrity of the organizational processes and procedures relating to internal control and financial reporting. The internal audits are the arms and legs of the Audit Committee. The internal audits assist the Audit Committee in discharging its responsibilities. Thus, a good working relationship should exist between the Audit Committee and the internal auditors so that they can help each other in fulfilling their responsibilities to the management and other stakeholders. A Malaysian model of the terms of reference for the audit committee is included in Appendix B.

Establishment of Audit Committee - Experience Korea and Malaysia

In Korea, most ministries and departments do not have Audit Committees, except for the Ministry of Foreign Affairs and Trade (MOFAT) and the Ministry of National Defense. However, the Joint Coordination Committee plays the role of Audit Committee in part by providing advisory services to IAUs.

In Malaysia, the MOF has issued a directive instructing all ministries and departments at the federal and state levels to establish Audit Committee. The Audit Committee reviews the accounts, audit and other reports and makes recommendations to the Heads of ministries or departments; approves the internal audit charter, organization chart, audit plan and reviews them periodically; evaluates the internal audit function, improves its effectiveness and efficiency, and ensures that all issues reported by the internal audit function and the Auditor General Office have been satisfactorily resolved. The size and composition of the audit committee will depend on several factors, such as the ministry/department organizational structure, size, operations, complexity, risk profile, programs, activities, and so forth. The Heads of ministries or departments will set forth a written and well-defined terms of reference which will deal adequately with the membership, the authority and the function of the Committee. In addition, the Heads of ministries or departments will evaluate the Audit Committee's performance based on the terms of reference. The Audit Committee should be encouraged to conduct its own self-assessment from time to time.

1.2.3 Provision of Adequate Resources Adequate funding and manpower are vital for enabling IAUs to fulfill their entrusted responsibilities. IAUs should be

operated with sufficient budget. Restrictions on funds may limit the internal auditors from fulfilling their responsibilities and may limit the scope of audit activities. Apart from funding, the provision of adequate tools and technology can enhance the level of audit activities.

1.3 The Need for a Professional Practice Framework

A professional practice framework is required to guide internal auditors in the performance of their work. It provides the basis for continuous education and training of internal auditors. SAIs, together with MOFs and the IAUs at ministries and departments, could consult each other to draft the professional practice framework of public sector internal auditing. Amongst others, the framework should cover the following six features:

- 1) Internal Auditing Standards and Manuals/Guidelines
- 2) Code of Ethics / Code of Conduct
- 3) Internal Audit Charter
- 4) Quality Assurance and Review System
- 5) Reporting Mechanism
- 6) Evaluation of Internal Audit System.

1.3.1 Internal Auditing Standards and Manuals/Guidelines Auditing standards should be in place for addressing the internal audit process or the internal control structure of the organization. Based on the survey results, generally, the internal auditors perform their duties based on generally accepted standards or manuals or guidelines. However, it is important to develop public sector internal auditing standards or to adopt the internal auditing standards already developed by the INTOSAI or by the Institute of Internal Auditors.

IAUs should develop their own internal audit manual which contains a procedural guide for enabling them to perform their work effectively. Internal auditing guidelines should be issued from time to time to guide the work of the IAUs and to promote best practices.

Auditing Standards and Manuals/Guidelines - Experience of China, Iraq and Malaysia

In China, in 2003, to facilitate the comprehensive development of internal audit work, the Basic Standards for Internal Audit, the Code of Ethics and Professional Practices for Internal Auditors, and ten specific standards were promulgated by the China Institution of Internal Audit. These documents included three levels of contents: the basic standards for internal audit, the specific standards for internal audit, and the guidance for internal audit practices. These standards were applicable to IAUs, to internal auditors, and to their internal audit activities. In addition, the basic standards also stipulated the general standards, field auditing standards, reporting standards, and internal management standards of internal audit.

In Iraq, the auditing work of IAUs is in accordance with the international standards and the standards issued by the Iraq Accounting and Controlling Standards Board, which was formed according to the amended BSA Law No/6 in 1990. This law is in conformance to the order of President's Office No. 16. The Board of Accounting and Auditing Standards issued (14) bases of accounting and issued (6) evidences of auditing, which are obligated and should be implemented by all ministries. It also specifically focuses on the internal control system, which has contributed significantly to the development of internal auditing in Iraq.

In Malaysia, internal audit standards are determined by MOF, Head of ministry/ department and Audit Committee, and the Institute of Internal Auditors Malaysia (IIAM). In the planning and execution of audit work, internal auditors adhere to the generally accepted auditing standards as well as to the SAI's auditing standards, which are based on the International Auditing Guidelines and INTOSAI. These standards are supplemented by several audit manuals and audit guides on work procedures issued by both the MOF and the SAI in order to assist the auditors in performing the audits.

1.3.2 Code of Ethics/Code of Conduct Promoting ethical and professional values will ensure the excellence of the organization and the service quality of internal auditors. Every IAU should formulate a binding Code of Ethics or Code of Conduct in order to instill professionalism and to give public assurance of integrity. This Code of Ethics or Code of Conduct can be built on such guidance as provided by the Institute of Internal Auditors (IIA) or other professional organization, and the guidance should be adapted to the country-specific needs.

Code of Ethics/Code of Conduct - Experience of Malaysia

In Malaysia, the Code of Ethics is essential, considering the mandate, responsibilities, and expectations of the internal audit function in the organization. Internal auditors must comply with the Code of Ethics issued by the MOF, which draws on guidance from the Institute of Internal Auditors Malaysia (IIAM) and from the general rules and legal requirements of the public sector. In addition, internal auditors need to comply with the Public Sector Code of Ethics issued by the SAI, which is based on the INTOSAI Code of Ethics, the Code of Conducts for the Civil Servants, and the Code of Ethics of respective professional associations in which they are members.

1.3.3 Internal Audit Charter The IIA Standards emphasize the need for the IAU to have an internal audit charter. The purpose of the internal audit charter is to document the audit mandate and the powers granted to carry out internal audit activities on behalf of the Heads of ministries/departments or the Audit Committee. The internal audit charter establishes the position of the internal audit function within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of the audit; and defines the scope of internal audit activities. The internal audit charter is reviewed periodically by the Heads of Internal Audit Units, heads of ministries/departments and the Audit Committee in order to ensure that the charter is relevant and applicable to the existing circumstances. Public sector IAUs may consider developing or adopting internal audit charters using the IIA framework, which explains the role and responsibility of the internal auditor in the overall process of governance, risk management, and internal control. This framework for the audit charter will help a government ministry/department to internalize the laws and best practices.

The checklist on the composition of a basic audit charter is available in Appendix C, which is based on Malaysia's experience.

1.3.4 Quality Assurance and Review System A quality assurance and review system should be built into the internal audit system in order to ensure that professional, high quality work is undertaken by all internal auditors. Periodic internal and external reviews on the effectiveness of the internal audit function

are encouraged. Internal auditing process should be monitored in order to determine whether the organization is complying with the rules and regulations, whether the respective processes are achieving the expected results, and whether any adjustments are required.

Review System

- Experience of Iraq, Malaysia, and Russia

In Iraq, two bodies are responsible for reviewing and checking the internal auditing system. Internally, reviewing and checking is performed by the Inspector General Offices, as clearly stated in the Law Order/57 of 2004. Externally, reviewing and checking is performed by the BSA. The BSA audits the whole of governmental units including IAUs in accordance with article (2-forth) of the BSA amended Law No. 6 in 1990.

In Malaysia, IAUs have a dual review quality system that encompasses internal and external reviews. The internal quality reviews include the ongoing and periodic reviews of the performance of the internal audit activity by the Heads of ministries or departments and Audit Committee. The external quality review is conducted by the MOF and the SAI. The MOF evaluates the effectiveness of the IAU function on a rotational basis and the evaluation covers the general and specific aspects of the IAUs.

In the evaluation of IAUs, the general aspects of the review cover the following: structure, approval and submission of the audit plan, monitoring of the auditing works, types of special investigations conducted, preparation and approval of the annual internal audit reports, membership in IIA Malaysia, and adequacy of the annual budget. The specific aspects of the review of IAUs cover the plan (preparation of strategic plan/ annual audit plan, risk evaluation, types of audits conducted, achievement of audit plan), reports (time taken to issue the management letter report, time taken to take action on the audit issues); administrative matters (initial/exit conference, training, adequacy of tools/facilities, problems faced by internal auditors, cooperation with auditees, usage of auditing guidelines/checklist, financial management issues raised by internal auditors, annual work targets and duty list); post (adequacy of the post, organizational structure, workloads); Audit Committee (establishment, composition, frequency of meeting, submission of minutes, tabling of the reports at the Accounts & Financial Management Committee) and role of the Treasury of Malaysia. Apart from this coverage, the MOF monitors the works of the IAUs electronically through submission of the Audit Plan, the

Annual Audit Report, and the Quarterly Report Review of the Audit Committee. At least once annually, meetings with the Heads of the IAUs are held in order to review their work.

Once in every 4 years, the SAI of Malaysia conducts studies on various aspects of the IAU functions, such as on the effectiveness of the IAU functions and on the performance evaluation of those Heads of ministries and departments taking actions on matters raised in the Auditor General reports. Other review methods include participation of the Head of the IAU from the Treasury Malaysia at the SAI Management Meeting, which is conducted once/twice monthly, and the annual meeting between all the IAUs and SAIs to discuss the audit plans and audit findings for the purpose of preventing any duplication of works.

In the Russian Federation, commencing in 2011, the assessment of the internal audit activities of the chief administrators of the federal budget funds is conducted using a comprehensive matrix. The matrix covers eight indicators: normative regulation of the functions of IAUs and relevant public officials; level of accountability; cooperation with the bodies of state financial audit; organizational structure; human resources potential; organization of audit activities; planning of audit activities; scope of audit activities. There are 5 variants of the levels of assessment, and the indicators are assessed in accordance with the five-point grading scale. On the basis of the average grade, the overall level of internal audit on every chief administrator of the federal budget funds is determined either as high, average, or low. The results of the internal audit assessment are indicated in the Conclusion of the Accounts Chamber in the report on the federal budget execution for 2010. From time to time, the Accounts Chamber of the Russian Federation will improve and review the specification of the indicators of the matrix in order to ensure its convergence with the international professional standards of internal audit.

1.3.5 Reporting Mechanism An internal audit reporting mechanism should also be clearly stated in the framework. This mechanism must identify to whom the internal audit reports should be addressed and submitted so that the results of the reports can be communicated to all relevant persons in order to ensure the implementation of agreed audit recommendations. The number of recommendations implemented is a measure of audit function's effectiveness and usefulness.

1.3.6 Evaluation of Internal Audit System The overall internal audit system

should be evaluated from time to time to ensure that it functions effectively. Therefore, a model checklist as shown in Appendix D is designed to assist the monitoring agency/SAI to evaluate the internal audit system, as well as to identify the constraints and the ways to improve it.

1.4 Human Resources Development

1.4.1 Audit Competency The roles of internal auditors have changed from the traditional role, in which they merely perform their retrospective audit work, to more modern roles, in which internal auditors become involved in almost every facet of the operations of the organization. Internal auditors scrutinize efficiency, economy and effectiveness of operations, and they make recommendations for improvements where they find gaps. Internal auditors also assess risks — financial, operational and strategic — in order to ensure that the control system of the organization is strong. These diverse roles require internal auditors to be equipped with relevant competencies. IAUs must have adequate internal audit staff and skill-sets to provide high quality internal audit coverage.

Staffing and Qualifications

- Experience of China, Korea, Malaysia, and Saudi Arabia

In China, in 2003, the China Institution of Internal Audit promulgated the Implementation Methods for Internal Auditors' Post Qualification Certificate, which requires that the internal auditor's post qualification certificate be held by all individuals conducting full-time or part-time internal audit work. The qualification certificate could be acquired in either of two ways: by qualification certification or by examination. The Institution also stipulated the contents of examination, the verification and issuance procedures, and the annual checking and registration system for qualification certificates, etc. In addition, any individual who obtained either the internal auditor's post qualification certificate or a certificate as a certified internal auditor should receive continuing education. Also, for continuing education, the Institution clearly set forth the main contents of continuing education, the forms of continuing education, and the methods for calculating the learning-hours for continuing education as well.

In Korea, the 2010 Public Sector Internal Audit Act stipulates that the Heads of ministries and departments should appoint internal auditors with professional

competency. The Act also includes provisions on requirements for becoming internal auditors, preferential treatment, and tenure. There are 32 ministries and departments that are required to recruit the Head of the IAU through open competition in order to enhance independence and professionalism. As of May 2011, 24 of 32 ministries had recruited the Heads of IAUs, who have experience in the areas of audit, investigation, judicial affairs, accounting, policy/program evaluation, economics, and public administration among others. The remaining ministries and departments are in the process of recruiting the Heads of IAUs through open competition. Stipulated in the Public Sector Internal Audit Act, the minimum requirement for eligibility to become the Head of IAU is the fulfillment of one of the following criteria:

- Over 3 years of experience as public officials in the areas of audit, investigation, judicial affairs, accounting, planning, evaluation, etc.;
- Over 3 years of experience as a judge, prosecutor, attorney, or accountant;
- Over 3 years of experience as at least Assistant Professor in an audit-related field;
- Over 3 years of audit experience as the head of department in the listed companies;
- Over 3 years of audit experience as the head of department at a research institute; or
- Having a specialty in technology, health, tax, or environment, and meeting the eligibility criteria under the Presidential Decree.

In Malaysia, internal audit personnel of the federal ministries and departments are manned by SAI through caderization posts. The Government decided to caderize the IAUs post in order to ensure that the IAUs are staffed with experienced auditors who can perform the audits effectively. As such, the auditors attached to the IAUs comply with the criteria for requirement set by the Malaysian Public Service Commission that is at least having diplomas/degrees in accounting or auditing, or related diplomas/degrees, or professional qualifications (Certified Internal Auditor, Chartered Accountant). Preferably, they are also members of professional associations such as Institute of Internal Auditors of Malaysia/Malaysian Institute of Accountants. The SAI of Malaysia gives particular emphasis on the appropriate number of years of auditing experience (at least 5 years and above) in appointing internal auditors for senior posts.

In Saudi Arabia, the Uniform Regulation of Internal Audit System (URIAS) states clearly the criteria of appointing the Head of IAU in the government sector. The criteria includes he/she must be of Saudi nationality, hold at least a bachelor's degree in

accounting or a degree in a closely related subject or a professional certification, have experience of not less than ten years in the field of internal audit; should not have any criminal records or any violation of the rule of honor or trust; and must have the ability and capacity to meet work requirements. In addition, internal auditors must have at least 3 years' experience in auditing field, holding a diploma in accounting or any other major that related to the main activities of the department and should not have any criminal records or any violation of the rule of honor or trust.

1.4.2 Continuing Professional Development A structured and continuous in-house training program, both in the form of formal classroom and on-the-job training, needs to be provided to the new and existing internal auditors. The trainings should focus not only on technical aspects of auditing and information technology but also on soft skills required in the conduct of audits (such as reasoning, communication, negotiation, analysis, and behavioral management). A training needs assessment should be undertaken in order to determine the required and available skills so that recruitment of qualified internal auditors and their subsequent training can be based on identified skills requirements.

An effective capacity-building strategy includes smart partnership. The partnership should be established by the IAUs and SAIs, professional associations, fraud investigative bodies, and other civil society organizations. The purpose of the partnership is to exchange knowledge and ideas or to conduct collaborative training programs. An internal auditor in the public sector should be encouraged to become a member of a professional association that provides professional support and guidance in internal auditing, if such an association exists in a country.

**Internal Audit Professional Development
- Experience of Malaysia and Pakistan**

In Malaysia, the MOF and the SAI are committed to the Continuing Professional Development of the internal auditors. The MOF continuously provides in-house training courses in order to improve the competency of the internal auditors. Additionally, as organized by the SAI through the National Audit Academy, conferences and training programs are extended to the internal auditors. The SAI of Malaysia also organizes specific programs, such as internal auditing seminars, in order to sharpen the auditing

skills and to enhance the performance of auditors so that they provide value added services to their respective managements. The SAI of Malaysia is working collaboratively with IIA Malaysia in order to increase the number of internal auditors having the Certified Internal Auditor (CIA) qualification. As an incentive to encourage them to undertake the CIA examination, the SAI of Malaysia will reimburse the examination fees, provided that candidates passed the examination within the given time.

In Pakistan, at the Audit and Accounts Training Institute (AATI), the Department of the Auditor General of Pakistan (DAGP) conducts internal audit training on various subjects, such as accounts, audit, finance, management, and regulations. The AATI also arranges internal audit training for IAUs of other departments on their request. Further, the DAGP encourages its officers to acquire professional certifications like CIA (IIA), CISA, and PMP. The fees incurred on acquiring such certifications are refunded to the concerned officers.

1.4.3 Incentives and Rewards Incentives should be provided to internal auditors. These incentives could entail an attractive remuneration, with appropriate salaries and a graded structure to minimize disparities in comparison to the private sector. A career development plan or progression scheme should also be designed for internal auditors. In order to enhance their knowledge and skills, internal auditors should be encouraged to participate in exchange programs with the private audit firms. Other incentives could be in the form of training abroad as well as opportunities to earn professional qualifications.

1.5 Modernizing the Public Sector Internal Audit Services

1.5.1 Governments of today are moving towards higher levels of transparency by demonstrating both accountability in the use of public money and efficiency in the delivery of services. The complexity of government operations and transactions creates new challenges, which demand changes to the internal auditing profession. The public sector IAU needs to redefine its roles, to shift a focus, and to adapt culture. To meet such challenges requires the development and implementation of innovations. Some of these innovations may include making changes to the structure and management of the internal audit department, creating new services and methods, or changing the auditing

process through the use of technology. The aims of these innovations are: to improve the quality of internal auditing services; to improve efficiency; to expand the services in order to increase the value added of internal auditing; and to boost staff skills, performance, and morale.

1.5.2 Audit services can be categorized into audit-related services and non-audit related services. Audit-related services include investigations, reviews, cost-effectiveness analysis, and implementation support. Non audit-related services refer to providing consulting services or project management services. The scope of internal auditing services has expanded to include not only organizational control but also organizational risk management, fraud detection and information technology risk assessments, and governance. Internal audit functions should emphasize the provision of these services in order to become a valuable partner in the organization. IAUs not only should be fulfilling a “policing” role but also should be providing oversight functions to the management.

1.5.3 It should be reminded that provision of audit-related and non audit-related services should be clearly spelt out because each requires a different level of commitment and has a different impact on the independence of the internal audit function. The extent to which internal audit is able to perform consulting activities depends on the technical knowledge available, on the amount of time available to perform these activities, and on the consideration of any conflict of interest and organizational policies.

1.5.4 In the process of modernizing the internal audit, the IAUs must not be complacent toward the quality and efficiency of the internal audit services. The head of the IAU must ensure that persons assigned to each engagement collectively possess the required knowledge, skills, and other competencies. Proper supervision is necessary from the commencement of planning, through implementation, to the completion of the final report. Active application of internationally accepted internal auditing standards will also raise the quality of audits. Public sector IAUs need to use information technology as a means to support their auditing and management processes and to improve knowledge management. Quality assurance and continuous improvement are fundamental considerations for achieving high levels of quality in the products and services of internal audits.

2. Cooperation and Coordination between IAUs and SAIs

2.1 Legal Mandate or Formal Structure

2.1.1 From the analysis of survey results, existence of legal mandate may be considered a strong stimulus ensuring effective cooperation between the SAI and the IAU, as in Japan, followed by China, Afghanistan, and Armenia and further by Korea and Thailand. In the absence of legal mandate, an alternate structured framework in the form of formal meetings between the SAI and IAU to understand the audited entity is the mechanism to ensure cooperation. Countries like Malaysia and Iraq, which have established internal audit systems in the central ministries, have followed it up by a formal structure to ensure meetings at regular intervals.

Legal mandate - Experience of China and Korea

In China, the Audit Law 2006 says that internal auditing is subject to the professional guidance and supervision of the audit institutions. From the survey results, it is seen that in China the rating for the level of cooperation in the areas of audit planning, coverage, methodology, exchange of ongoing audit findings, audit reports, and access to programs and working papers is at a fair to high level as evidenced by the responses of both the SAI and the Ministry of Finance.

In Korea, the Public Sector Internal Audit Act of 2010 includes chapters on the improvement of the audit system and the SAI's support to IAUs. Measures for improving the public audit system in the Act are the establishment of the Joint Coordination Committee, coordination of audits between SAI and Heads of ministries and departments, construction of an audit information system, and SAI's role as facilitator by providing internal audit standards and code of conduct for internal auditors.

2.2 Audit Planning and Methodology and Evaluation

2.2.1 Coordination between SAI and IAU is necessary to avoid duplication and to maximize audit efforts. The survey results showed that the countries

concerned have achieved it through legal mandate, formal meetings, issue of guidelines and exchange of audit findings, as detailed below.

2.2.2 Article 34 of the Public Sector Internal Audit Act of Korea stipulates that the SAI should discuss audit plans with IAU in order to avoid duplication and to enhance efficiency in auditing. According to the Act, the Joint Coordination Committee would meet quarterly to discuss audit plans, cooperation between IAUs, comprehensive policies, audit standards, etc. The Head of the Council is the SAI's Secretary General, with around 20 members, including Heads of IAUs, senior public officials appointed by the Chairman of SAI, and external experts.

**Coordination in Audit Planning
- Experience of Korea**

In Korea, for fiscal year 2011, guidelines for the submission of audit plans by IAUs were delivered in mid-November of 2010, and discussions between the SAI and IAUs ensued. Revised audit plans were submitted and finalized by the end of 2010. Directions for cooperation between the SAI and IAUs for FY 2011 include preventing duplication of audit effort, alleviating the burden on those entities being audited and encouraging cooperative audits. Challenges remain in coordinating audit plans, including the regularization of audit planning and discussion process among ministries and departments.

2.2.2.1 In Korea, the SAI supports IAUs through consulting on audit planning and methodology to improve internal audit and to carry out audit tasks in an efficient manner. The Public Sector Internal Audit Act of Korea also states that the SAI can evaluate the operations of the IAU, the compliance with audit standards and codes of conduct, the internal audit activities, the action taken on audit findings and recommendations, etc. Every year, the SAI provides the evaluation plan with a list of entities to be audited and the indicators. The evaluation results are to be reported to the National Assembly beginning in 2012. The purpose of evaluation is to induce the IAUs to improve and to enhance overall audit capacity in the country as whole.

Evaluation of Internal Audit - Experience of Korea

In Korea, Article 39 of the Public Sector Internal Audit Act states that the BAI of Korea can evaluate operations of the IAUs, compliance with audit standards and codes of conduct, internal audit activities, actions taken based on audit findings and recommendations, etc. The Minister of Public Administration and Security, the Minister of Education, Science and Technology, and governors can carry out part of the review activities and notify the results.

The BAI reviews 4 aspects of IAUs and internal audit activities: a) IAUs and human resources (20%), b) audit activities (40%), c) audit performance (30%), and d) management of follow-up actions (10%). There are a total of 20 indicators, which include both quantitative and qualitative measures. One or two of the central government ministries and departments are selected among the upper 30% of all ministries and departments based on weighted scores.

2.2.3 The SAI of Malaysia issued guidelines in 2002 as follows:

- In preparing the annual audit plan, the SAI needs to obtain information on audits conducted by IAUs and issues observed, as well as to follow up in order to prevent duplication of work, besides identifying the area, topic, and activities which need to be audited by the SAI. To have effective coordination, both the parties will discuss the annual audit plan before it is prepared. The IAU is required to submit the annual audit plan to the SAI by December. The annual audit report of the IAU should also be submitted to the SAI.
- While conducting systems audit, the IAU evaluation can be the basis for the SAI to carry out the audit.
- In the evaluation of the internal control system in an organization, the assurance of the IAU on adequacy can be utilized by the SAI as the basis to determine the scope and level of auditing procedure to be used.
- The SAI and the IAU can cooperate in auditing an organization to supplement each other's findings.

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- The auditing guidelines of the SAI can be used by the IAU also.

2.2.4 The SAI of Iraq has issued guidelines on the powers, responsibilities, and scope of IAUs including the expectation for IAUs to consult SAI for drawing up annual plans.

Issuance of Guidelines and Sharing Information - Experience of Malaysia and Iraq

In Malaysia, formal meetings are held between the SAI and the IAU once or twice every year where both will present their annual plans. The SAI and the IAU assist each other in conducting audit by sharing information and by providing subject matter experts on IT audits.

Both the parties share audit guidelines and audit reports. The SAI conducts a study on the effectiveness of the IAUs on aspects of structure, staff competency, audit plan and its execution, quality of audit activities, quality of audit reports, implementation of audit recommendations and compliance with the Ministry of Finance directives.

The SAI of Iraq has issued a reference guide on the powers, responsibilities, and scope of the IAUs for the internal control units in the ministries. The guidelines further provide that IAUs consult the SAI for drawing up annual plans and provide the SAI with copies of annual reports. The SAI uses the IAU reports to identify problems existing in the audited units. The SAI evaluates performance of the IAUs through an annual questionnaire.

2.2.5 The proactive steps taken by the SAIs of Malaysia and Iraq have resulted in a fair to high rating of the extent of cooperation and coordination in the areas of audit planning, audit coverage, and exchange of audit reports in these countries, as reported by the SAIs and the MOFs of both countries. Both the SAI and the Ministry of Finance of these countries are willing to cooperate in the following areas:

- Building up a common data bank on the audited entity's key functional areas;
- Sharing and development of audit methodology;
- Understanding on the level of documentation required for arriving at audit

conclusions; and

- Sharing of audit findings, reports, management letters and action-taken reports.

2.3 Human Resources

The efficiency and effectiveness of the audit efforts of a country can be improved by adequate staff that possesses the necessary skills. To enable internal audit to function well, it is seen that the SAIs of Korea, Malaysia, and Pakistan lend their staff to the IAUs. Some of the SAIs also offer training facilities to the IAUs. The training facilities available are highlighted in the box.

Training and Secondment of Staff - Experience of Iraq, Malaysia, and Pakistan

The SAI Iraq provides training programs periodically to the internal auditors and Inspector General's office employees in order to increase the skills and performance efficiency.

In Malaysia, the SAI assists the IAU in providing subject matter experts and on the job training upon request. The SAI also conducts seminars, conferences, and training programs for the IAUs. Both the SAI and the Ministry of Finance of Malaysia reported an excellent degree of cooperation in secondment of staff.

In Pakistan, the SAI conducts internal audit training for its own officers/personnel through their Audit and Accounts Training Institute (AATI). AATI also arranges internal audit training for IAUs of other departments on their request.

From the survey results, it can be concluded that an enabling framework, in the form of either legal or formal structured meetings between the SAI and the IAU, avoids duplication of effort, and promotes understanding and clarity of respective roles and cooperation to maximize audit efforts.

V. Conclusion

1. Summary of the Survey Results

1.1 This research project examined the prevailing practices of the internal audit system at the central government level and recommended ways to improve the internal audit system in ASOSAI member countries. The internal audit system is assessed in terms of governance, structure, standards and review system, human resources, and audit services. Also analyzed have been the extent of cooperation and coordination existing between the SAI and IAU and the scope for coordination in risk assessment and in other areas like building up of a common data bank to exchange audit plans and audit reports. The barriers to cooperation and the improvements have been identified.

1.2 The survey results indicated that more than 50 percent of responding countries have established Internal Audit Units at the central level by laws, acts, and regulations. However, the majority of responding countries still lack independence of the internal audit function. For instance, the rank of the Head of the IAU is at the middle management level, and there is no Audit Committee; this situation, in turn, impairs the independence of internal audit. With respect to standards, over fifty percent of responding countries do not have any written policies or have only minimum policies and procedures. In terms of the quality assurance system, only a few countries have a good internal or external review system in place.

1.3 In terms of professionalism for the internal audit function, both the SAI and the Ministry of Finance identified lack of staff with adequate skills and knowledge as the main constraint. The survey results showed that most countries require internal auditors to hold either a degree in finance, accounting, or auditing, or to hold certificates such as CPA, CMA, and CIA, or both. With regard to audit services, the majority of the responding countries carry out compliance audits and financial audits. Only 50 percent or less of responding countries carry out performance audit and other types of modern internal audit functions, such as IT audit, consulting advice, and risk management.

1.4 In terms of the relationship between IAUs and SAIs, the majority of responding countries reported that they review internal audit reports and/or evaluate internal audit functions. Some responding countries also hold formal or informal meetings between SAIs and IAUs. The survey results showed that the countries with legal mandate or the countries that hold formal meetings between SAIs and IAUs rated highly the extent of cooperation and coordination in various stages of auditing.

1.5 After assessing the current practice of the internal audit system and the relationship between IAUs and SAIs, this Research Project provided recommendations and best practices for each element of internal audit. The recommendations made for improving the internal audit system are:

- Ensuring independence of the IAU, including the existence of legal mandate or regulations, the establishment of a reporting mechanism and Audit Committee, and the provision of adequate resources;
- Establishing a professional practice framework, including internal auditing standards/manuals, a code of ethics/conducts, and the quality assurance system;
- Developing human resources development, including the recruitment of audit staff with competency, continuing professional development, and provision of incentives and rewards; and
- Modernizing the public sector internal audit services.

To make an effective beginning towards cooperation and coordination the survey results indicated that, wherever the IAU exists, the SAI could take certain initiatives to make the IAU integral to accountability and good governance. They are:

- Prescribing standards for internal audit, duly specifying duties, powers, and independence of the IAU.
- Formalizing modalities for ensuring non-duplication of work through:
 - i. Structured meetings between the SAI and the IAU, enabling better communication and clarity in respective roles;
 - ii. Submission of the IAU plan to the SAI, which could be considered by the

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- SAI before finalizing its own audit plan; and
- iii. Common/joint training programs.
- Ultimately ensuring by statute the IAU's role and a formal structure enabling cooperation and coordination with the SAI.

2. Way Forward

2.1 Although this Research Project has provided a good foundation for understanding the current status of the internal audit system and the relationship between IAUs and SAIs in ASOSAI member countries, more research should be done on this topic. First of all, survey responses did not provide sufficient information for a complete understanding of the internal audit system in each country. Further research can be considered on the following subjects:

- Developing internal audit standards and guidelines for internal audit practice;
- Ensuring that a risk management system is in place vis-a-vis an internal audit plan;
- Enhancing professionalism of internal auditors; and
- Systemizing the areas identified for cooperation between the SAI and IAUs.

2.2 The SAI needs to develop a good working relationship with IAUs because strengthening the internal audit function could reduce the duplication of audit work and the burden on the SAI. One of the responsibilities of the SAI is to assess the functioning of the internal control system and to inform management about the findings. Thus, the SAI needs to understand the internal control system of the audited organization. According to the survey results, most countries lack central policy units for internal audit, and, therefore, there is no formal mechanism to develop and coordinate policies for internal audit in many cases. Given IAUs' lack of expertise and resources in auditing, SAIs in ASOSAI member countries should play an active role or form a partnership with the MOF in establishing an internal control framework and in preparing internal audit standards. Those countries that have best practices can share their experience and can help develop the internal control framework and internal audit standards for ASOSAI member countries.

2.3 According to the survey results, the MOF identified the possible areas where SAIs and IAUs can work together: sharing and development of audit methodology and sharing of training programs, among others. ASOSAI can facilitate meetings and conferences to share experiences and to exchange ideas on the audit methodology and training programs among ASOSAI member countries.

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Appendix A: List of Respondents to the Survey and Country Papers

	Country	SAI	MOF	Country Paper
1	Afghanistan	Y		
2	Armenia	Y	Y	
3	Australia	Y		
4	Bangladesh	Y		
5	Cambodia	Y	Y	
6	China	Y	Y	Y
7	Cyprus	Y		
8	Georgia	Y	Y	
9	India	Y	Y	Y
10	Indonesia	Y	Y	Y
11	Iran	Y	Y	Y
12	Iraq	Y	Y	Y
13	Japan	Y		
14	Korea	Y	Y	Y
15	Kuwait	Y	Y	Y
16	Kyrgyzstan	Y		
17	Malaysia	Y	Y	Y
18	Myanmar	Y	Y	
19	Nepal	Y	Y	
20	Pakistan	Y	Y	Y
21	Russia	Y	Y	Y
22	Saudi Arabia	Y		Y
23	Singapore	Y		
24	Thailand	Y	Y	
25	Turkey	Y	Y	
26	Vietnam	Y	Y	Y

Appendix B: Terms of Reference of the Audit Committee

The Heads of ministries/departments should establish an Audit Committee with well-defined terms of reference regarding its purpose, authority, membership and functions.

Purpose

The existence of an independent and effective Audit Committee can assist the Heads of ministries/departments to meet their statutory and fiduciary responsibilities as well as fulfill their oversight roles on the risk management, control, and governance processes of the organization.

Authority

The authority of the Audit Committee is governed by its terms of reference. The Audit Committee should have the authority to demand full access to all information of the organization in order to seek and obtain information and explanations from the employees of the organization; the authority to investigate any matters within its scope of responsibility; the authority to obtain legal or other advice on any matter through proper channels; and the authority to resolve any disagreements between the management and the auditors.

Membership

The Audit Committee shall consist of at least three members, the majority of whom must be independent members who are from other organizations and who are of senior rank with the necessary experience and expertise. The Heads of ministries/departments shall not be a member of the Audit Committee. At least one member of the Audit Committee must have relevant financial and accounting experience, with membership of a professional accounting body. The members of the Audit Committee shall be appointed for a period of three years, a

period which may be extended for an additional two years.

Functions of the Audit Committee

The functions of the Audit Committee are at minimum:

- To ensure that the terms of reference has been duly approved by the Heads of ministries/departments and comply fully with the approved terms;
- To assist the Heads of ministries/departments effectively to discharge their duties and responsibilities in the management of the organization;
- To review the accounts, audit reports, and other reports and, thereafter, to make recommendations to the Heads of ministries/departments;
- To approve and review periodically the internal audit charter, the organization chart, and the audit plan;
- To review the performance of the Head of the IAU at least once annually;
- To evaluate periodically the internal audit function and improve its efficiency and effectiveness;
- To ensure that the IAU possesses sufficient resources and competent personnel in order to enable it to function effectively;
- To ensure that all issues reported by the internal audit and the Auditor General have been satisfactorily resolved and that follow-up actions have been taken;
- To review the performance indicators for the internal audit function and, subsequently, to review the actual achievement as compared to the indicators; and
- To review the effort of coordination for internal audit, specifically the coordination with the external auditor.

Meetings

The Audit Committee shall meet at least four times a year. The Audit Committee

may request any officer, employee, external auditor, legal adviser, or any external party to attend all or part of any meeting or may request to meet with any members of the Audit Committee. The Head of the IAU shall be requested to attend all meetings related to its oversight responsibilities for auditing, financial reporting, internal control and compliance, risk management and governance.

Reporting

The Audit Committee shall report regularly to the Heads of ministries/ departments about the Committee's activities, significant issues noted by the Committee, and related recommendations. The Audit Committee periodically shall submit their report to the Ministry of Finance.

Appendix C: Checklist of the Internal Audit Charter

The Internal Audit Charter shall state the following matters:

- Purpose, authority and responsibilities of the internal audit
- Types of services provided by the internal audit
- Scope of internal audit activities of the internal audit
- Independence and objectivity of the internal audit function, including any constraints to its function
 - ▷ Position and reporting
 - ▷ Power to access records, personnel, and physical properties
 - ▷ Independence from any undue influence in determining the audit scope, implementation and reporting
- Expected standard of skill and professional due care of the internal audit function
- Authority and method of communicating the audit findings to the Audit Committee, the Heads of ministries and departments, the auditee and to any relevant external party
- Responsibility to establish a monitoring system and to determine the adequacy, effectiveness and timelines on the actions taken by the management on the audit findings
- Responsibility to report to the Audit Committee, the Heads of ministries and departments regarding the following: i) the annual review system; ii) the approval of the internal audit charter; iii) the approval and the periodical review of the annual audit plan based on flexible risk and budget; iv) the internal audit activity report; v) the report on significant risk, control and governance; vi) coordination and supervision of other control and monitoring functions; vii) sufficiency of internal audit resources; and viii) the periodical evaluation and the quality assurance review on the internal audit function
- Responsibility for safe custody of and access to audit records.

Appendix D: Checklist on the Evaluation of Internal Audit System

I. Legal Framework	
1	There is a constitutional provision by Act of Parliament or a regulatory requirement to establish the IAUs.
2	The structure, size, and staffing of the IAU are adequate to meet the established objectives.
3	The IAU has sufficient funding to fulfill its responsibilities.
4	There is a body or authority responsible for monitoring whether the IAU achieves its objectives of establishment.
5	The purpose, authority, responsibility and reporting requirement of the internal audit function are formally defined and written in an internal audit charter.
6	The internal audit charter is approved by the Controlling Officer or Audit Committee, whichever is appropriate.
7	There are established policies and procedures designed to provide a reasonable assurance that the IAU can comply with relevant ethical requirements.
II. Independence	
8	The Head of the IAU is appointed by the Controlling Officer or the Audit Committee.
9	The Head of the IAU reports administratively to the highest possible level of authority in the organization and functionally to the Audit Committee.
10	The Head of the Internal Audit Unit is free to determine the scope, performance of the audit and communication of the results of the audit.
11	The Head of the IAU and associated personnel have unrestricted access to the information and records of the auditee.
12	Internal audit is sufficiently independent from the executive and internal audit is promoted throughout the organization as a fully independent, objective assurance provider.
III. Audit Committee	
13	The Audit Committee has been established.
14	The Chairman and members have been duly appointed by the Controlling Officer, the Audit Committee, or by any independent public service commissions as appropriate.
15	The Chairman of the Audit Committee is an independent member of the organization.
16	The Controlling Officer is not a member of the Audit Committee.
17	The Audit Committee has a written terms of reference which is approved by the Controlling Officer.
18	The majority of the Audit Committee members are independent of the management of the organization.
19	At least one member of the Audit Committee has relevant financial and accounting experience, with membership in a professional accounting body.

20	The Audit Committee meets at least twice a year.
21	The Audit Committee meets at least once a year with the Head of the IAU, the Head of Finance or an external auditor in order to discuss unresolved matters.
22	The Audit Committee has explicit authority to investigate any matters within its terms of reference, has the resources needed, and has full access to information.
23	The Audit Committee is able to obtain external professional advice and invite outsiders with relevant experience to attend when necessary.
24	The Head of the IAU directly reports to the Audit Committee and attends the Audit Committee meetings.
25	The Audit Committee meetings are properly planned and conducted.
26	The Audit Committee reports regularly to the Controlling Officer on key issues and recommendations, as well as the action plans.
IV. Human Resources	
27	There is a minimum set of qualifications or criteria within the job description for the different position levels of internal audit personnel.
28	The Head of the IAU has the necessary qualifications and experience to fulfill his/her responsibilities.
29	The internal auditors collectively possess the necessary knowledge, skills and other competencies needed to fulfill their responsibilities.
30	The internal audit function has an appropriate continuing professional development programs.
31	A reward mechanism is in place to provide performance incentives to the internal audit personnel.
32	There is a mechanism in place that takes care of career planning and development opportunities for internal audit personnel.
33	The performance appraisal of the internal auditors is being performed on a regular basis.
V. Internal Audit Function	
34	The internal audit function has a stated set of vision, mission and objectives.
35	The internal audit function has both a strategic and an operational plan in place.
36	The internal audit function has an annual risk-based audit plan which details the internal audit activities, work schedules, resources, timing, duration of audits and budget.
37	The priorities of the annual risk-based audit plan are consistent with the goals of the ministries/departments.
38	The Head of the Internal Audit Unit periodically reviews the annual risk-based plan and reports on its status to the Audit Committee.
39	The strategic, operational and annual risk-based audit plans are approved by the Audit Committee.
40	There is a mechanism in place to measure the achievements of the strategic, operational and annual risk-based audit plans.
41	The internal audit function carries out the audits based on internationally accepted auditing standards.

42	The internal audit function has available and accessible manuals and guidelines in order to guide the personnel in different areas of audit, such as regularity audit, performance audit and IT audit.
43	The scope of audit enables the internal audit function to determine whether the risk management, control and governance processes, as designed and represented by management, are adequate and functioning properly.
44	The internal audit work is focused on the achievement of objectives and on the monitoring of high-risk areas.
45	The internal audit function utilizes computer-assisted audit tools and other data analysis techniques when performing the audit.
46	The internal audit function uses its time and resources efficiently and effectively.
47	The audit engagement has the potential to improve the management of risks, add value, and to improve the operation of the organization.
48	The internal audit reports are issued in a timely manner to the relevant parties.
49	The internal audit reports clearly state the engagement objectives, scope, conclusions, recommendations and action plans.
50	The audit results and conclusions are based on appropriate analyses and evaluations.
51	The final reports express a constructive opinion on the adequacy and effectiveness of the risk management, control and governance processes of the audited area.
52	The internal audit function assesses and makes appropriate recommendations for improving the governance process.
53	There is an effective system to monitor and follow-up on the audit reports and its recommendations.
54	Management responds in an appropriate and timely fashion to the audit reports, the recommendations and to the significant comments made by the internal audit.
55	The Head of the IAU reports significant unresolved issues to the Controlling Officer or Audit Committee for resolution.
VI. Quality Assurance and Review System	
56	There is a mechanism in place which covers all aspects of the internal audit function, for the quality assurance processes, improvement programs and review system (internal and external).
57	The internal and external review results are communicated to the Controlling Officer and the Audit Committee.
58	The Head of the IAU has established a set of performance indicators for the internal audit function, and these indicators have been approved both by the Controlling Officer and by the Audit Committee.
59	The Head of the IAU reports to the Audit Committee on the performance achievement of the internal audit function, as compared to the approved performance indicators.
60	There is continuous monitoring of the quality assurance processes, the improvement programs and the review system.
VII. Relation with External Auditors	
61	The internal auditors share information and coordinate activities with the external auditors in order to ensure proper coverage and to minimize duplication of efforts.

Appendix E: Country Papers

1. China

PART I EVALUATION AND IMPROVEMENT OF THE INTERNAL AUDIT SYSTEM

1. Background

1.1 The State Council of the People's Republic of China, namely the Central People's Government, is the highest executive organ of State power, as well as the highest organ of State administration. The State Council is composed of a premier, vice-premiers, State councilors, ministers in charge of ministries and commissions, the auditor-general and the secretary-general. The State Council follows the system of premier responsibility in work while various ministries and commissions under the State Council follow the system of ministerial responsibility. In addition to the 27 ministries and commissions, there are 38 centrally administered government organizations that report directly to the State Council. In accordance with the Audit Law of the People's Republic of China, all of them are audited by the Chinese National Audit Office (CNAO).

1.2 The internal audit function has got incremental focus of attention as the vital part of government financial management and as a tool for improving government performance. Currently, more than half of the ministries and commissions have established Internal Audit Units (IAUs), and the number of staff varies between 2 to 40.

1.3 In 1998, in the institutional reform of the State Council, the CNAO transferred some of the functions of directing and supervising internal audit to the China Institute of Internal Audit (CIIA) with the responsibility of managing the internal audit sector. The main duties of the CIIA were to set forth the internal auditing standards and professional codes of ethics, organize experience exchanges and academic research in the field, train internal auditors, organize the International Certified Internal Auditor Examination, and conduct international exchanges and cooperation. CIIA should be directed, supervised, and administered by government audit institutions.

2. Governance

2.1 In 1994, The State Council issued the Audit Law of the People's Republic of China, Article 29 of which requires that departments of the State Council and of the local people's governments at various levels shall establish and improve their internal auditing systems in accordance with the relevant provisions of the State. Such internal auditing shall be subject to the professional guidance and supervision of audit institutions.

2.2 The IAUs generally report to the Head of the ministries or commissions. No formal Audit Committees have been established in most IAUs due to current governance structure. Most IAUs have developed an audit charter which defines the purpose, authority, and responsibility of internal audit, etc. The IAUs are funded through the annual budget of their government department. Article 8 of the Provisions on Internal Audit Work promulgated by CNAO (2003) states that funds necessary for internal audit departments to fulfill their duties and responsibilities shall be included in the budgets of local governments, and guaranteed by the organizations to which the internal audit departments belong.

3. Structure

3.1 According to the investigation, only a minority of ministries or commissions has established IAUs which are independent from other departments. Most ministries or commissions have established IAUs which are under the leadership of financial departments or discipline/administrative departments.

3.2 The organizational position of the Heads of the IAUs is determined by the hierarchy of the IAUs. For an IAU which is independent from other department, the position of Head of IAU is in parallel with other heads of departments. For those IAUs which are under the leadership of a financial department or other department, the Head of IAUs is responsible for the Head of the department.

3.3 For most IAUs, the predominant powers and responsibilities include:

- audit the economic activities about government revenue and expenditure, financial revenue and expenditure,
- audit the economic activities about government revenue and expenditure,

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- financial revenue and expenditure,
- audit the management and application of capital,
 - audit the accountability of leaders during their terms of office,
 - audit project construction,
 - examine and evaluate soundness and efficiency of internal control system and risk management,
 - perform operational or performance auditing, and
 - perform other auditing tasks required by laws or regulations.

4. Standards and Review System

4.1 In 2000, to facilitate the comprehensive development of internal audit work, the Standards Board of CIIA started to study and draft China's internal audit standards. In 2003, the Basic Standards for Internal Audit, the Code of Ethics and Professional Practices for Internal Auditors and ten specific standards were promulgated at the same time. These documents included three levels of contents: the basic standards for internal audit, the specific standards for internal audit, and the guidance for internal audit practices. The standards were applicable to all kinds of organizations' internal audit units and internal auditors, as well as their internal audit activities. In addition, the basic standards also stipulated the general standards, field auditing standards, reporting standards, and internal management standards of internal audit.

4.2 The framework of most IAUs' manuals covers the governance of internal audit activities, which generally includes:

- the internal audit methodology and approach;
- internal audit's organization structure and performance development; and
- process, policies, and procedures governing the management and administration of internal audit, as well as its compliance with the standards.

4.3 In terms of review, there are no formal external reviews in place for most IAUs. When implementing an audit project, the CNAO can review the internal

audit reports and evaluate the performance of IAUs; however, it is not mandate requirement. In order to ensure the audit quality, internal review measures taken by IAUs include:

- On-going monitoring, which is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. It is incorporated into the routine policies and practices to manage the internal audit activity and uses necessary processes, tools, and information to evaluate compliance with the Code of Ethics, and the Internal Auditing Standards.
- Periodic review, which is performed by an IAU at higher level or by independent staffs with sufficient knowledge of internal audit practices not involved in the audit project.

5. Human Resources

5.1 Professional competence is a critical factor for internal auditors soundly performing their task. In 2003, the CIIA promulgated the Implementation Methods for Internal Auditors' Post Qualification Certificate, which stated that an internal auditor's post qualification certificate should be held by all individuals conducting full-time or part-time internal audit work. The qualification certificate could be acquired in either of two ways: qualification certification and examination. In 2003, the CIIA promulgated the Implementation Methods for Internal Auditors' Continuing Education, which required that any individual who obtained the internal auditor's post qualification certificate or a certificate as a certified internal auditor should receive continuing education. IAUs in central government place great emphasis on professional quality, and they offer internal staff training consisting of a centralized workshop which combines "on-the-job training" with professional theory and skill development, such as laws and regulations, internal audit theory and methodology, IT audit, etc.

5.2 With the development of internal audit from financial auditing to a wider risk-oriented approach, the professional skill and competency issues still need to be addressed. Specifically, the professional background of many internal audit staff are accounting and auditing, but other professional skills, such as IT, legal, construction engineering are needed to enable the implementation of IT audit and construction audit, etc.

5.3 Some IAUs outsource their audit. Taking the IAU of Ministry of Industry and Information Technology as an example, it employs staff from audit firms to carry out financial audits, construction project audits and financial budget audits to overcome the problem of staff shortage. Besides, some IAUs temporarily second staff from other units within their organization such as personnel, supervision departments. CNAO organized conferences, forums, and normally, the internal auditors are invited to participate. The content of training covers the latest developments of SAI's auditing theory, methodology, and management.

6. Services

6.1 Generally, the IAUs at the Central Government carried out financial audits, accountability audits, construction project audits and investigations. Financial audits remain the primary function of internal audit. Besides, accountability audits have become prevalent in many IAUs. Accountability audit refers to such activities conducted by auditors as supervision, verification, and evaluation of the scope and extent to which the principals performed their duties. Specifically, it examines a variety of responsibilities, such as decision-making, operation, management, accounting, legality, performance, and compliance with laws and regulations. Most of IAUs at the Central Government perform accountability audit, whereas the scopes are various.

6.2 In terms of planning, it varies among ministries and departments. IAUs generally prepare an annual audit plan, and the approval process of the audit plan depends on the structure of the IAUs. For an IAU which is an independent unit, the audit plan is subject to the review and approval of the head of the IAU or the head of the department, while those IAUs subordinate to financial department or other departments, the audit plan usually is submitted to the Head of the department to which the IAUs belong. In the preparation of the audit plan, considerations are given to: contents, results of past audits, scale of assumed risks, current social circumstances, availability of audit resources, and other matters. There are no formal or unified requirements in terms of the submission of the audit plan.

6.3 With the improved status of IAUs, the management of the Central Governments put great focus on internal audit activities and audit findings and,

to enable the effectiveness of internal audit, the requirements of follow-up action are presented in the audit charter and manuals. With the support from the top management, IAUs regularly meet with officials at appropriate level to ensure follow-up on audit findings and report on the follow-up measures taken with respect to their recommendations.

7. Evaluation of Internal Audit Functions

7.1 The constraints in the functioning of IAUs in the central ministries and departments are:

- **Organizational Independence.** It is noticeable that most IAUs remain under the direction of financial department which may compromise the objectivity and effectiveness of audit.
- **Staffing.** Although some IAUs with enough staff enable them to carry out audit, such as Ministry of Railways with 40 internal auditors and the People's Bank of China with 21 internal auditors, there are still many IAUs that have a shortage of staff, with most IAUs generally having 2 to 4 auditors. Besides, the professional background of internal auditors is dominated by finance and accounting, which may not be the best basis to extend internal audit activities in the future.
- **Scope.** There is a need for IAU to broaden the scope of internal audit to cover entire domain of governance by going into areas such as performance audit, risk audit and IT audit.

7.2 These constraints can be overcome by the development of governance and continuous training; however, enough consideration should be given to the reality of governance in the Central Government.

- Taking into account the current development process of IAUs at the Central Government, the status of government department structure and governance, it is really a long way for IAUs to be established as an independent department at all central government level. IAUs should get support from top management and try to act as an independent unit.
- In order to overcome the shortage and incompetence of staff, IAUs should

employ qualified internal auditors, endeavor to form a reasonable mix of internal auditor skills, and strengthen awareness-raising of professional ethics and professional training. IAUs should also take measures to improve the professional competency of internal auditors and attach importance to learning and sustainable development, such as review of the existing qualifications of internal auditors and recommend appropriate qualifications including education, certification, knowledge, skills and abilities for internal auditors.

- Adding to traditional audit, value increase should extend audit review to the decision-making level, shift audit methods from post-audit to concurrent audit and pre-audit, and reorient the audit role from supervisor towards consultant.

PART II RELATIONSHIP BETWEEN THE CNAO AND IAUs

1. Brief Description of the CNAO

The legal status of auditing and supervision in China has been explicitly written in the Constitution of the People's Republic of China. CNAO is subordinated to the people's governments as a part of the executive branch of the State, directly under the leadership of the Premier; it is responsible for organizing and administrating audit work of the whole country and reporting its work to the State Council. The Audit General is a member of the State Council.

2. Cooperation and Coordination between the CNAO and IAUs

2.1 Article 29 of the Audit Law states that: units subject to supervision through auditing by audit institutions as stipulated by law shall establish and improve their internal auditing systems in accordance with relevant regulations of the State; their internal auditing shall be subject to the professional guidance and supervision of audit institutions. It clarifies the legal relationship between IAUs and government audit institutions.

2.2 Formal meetings are held between the CIIA and the IAUs once or twice yearly, with the

Heads of the CNAO participating in the meetings. In the meetings, the Heads of CNAO will be able to share information related to the latest developments of the department and discuss issues such as the strategy of SAI and audit methodology. CNAO annually assigned the CIIA to organize the internal audit research and awarded national advanced IAUs. When CNAO has determined that an internal audit function is likely to be relevant to its audit, it will determine whether, and to what extent to use specific work of the internal auditors. The main barriers are:

- No specified legislative framework of agreements on coordination and cooperation between SAI and IAUs; and
- Any compromise of confidentiality, independence, and objectivity.

2.3 Given the legal constraints and practical issues, there are several ways to improve the cooperation and coordination between SAI and IAUs:

- Develop legislation, formal agreements that organized the formal coordination and cooperation;
- Establish mutual commitment between internal auditors and SAIs. Effective cooperation can only be achieved if both parties are willing and committed to developing coordinated and effective audit services; and
- Strengthen communication between internal auditors and SAIs. Regular and open communication is essential to the success of coordination and cooperation. Formal communication can include regular meetings, particularly avoid duplication of efforts and agree on methods for the sharing of audit findings and other information.

2.4 With the development of contemporary society and governance of the Central Government, the internal audit function has received increasing attention as an instrument for improving the performance of the public sector and ensuring accountability. Although there are constraints that hinder the IAUs from effectively functioning, further attempts should be taken to enhance the performance of IAUs, and SAI should commit itself to working cohesively with IAUs.

2. India

PART I EVALUATION AND IMPROVEMENT OF THE INTERNAL AUDIT SYSTEM

1. Background

1.1 The Constitution of India provides for a Parliamentary form of Government which is federal in structure with certain unitary features. The executive comprises the Union or Central Government and the State and the Union Territory Governments. The Constitution provides for devolution of powers and responsibilities of the State to institutions of self government.

1.2 The Central Government comprises several ministries. The supreme audit authority common to both the Union and the States is the Comptroller & Auditor General of India (CAG), a Constitutional Functionary appointed by the President of India. The duties and powers of the CAG are derived from the Constitution. The CAG's (Duties, Powers and Conditions of Service) Act 1971 enacted by the Parliament prescribes the salary and other conditions of service of the CAG and the duties and powers in relation to the accounts of the Union, the States, the Union Territories, and other authorities and bodies.

1.3 According to the Constitution, the accounts of the Union and the States shall be kept in such form as the President of India may on the advice of the CAG prescribe. To administer the accounting system of the civil Ministries of the Central Government, the office of Controller General of Accounts (CGA) has been set up in the Ministry of Finance. The CGA is responsible for establishing and maintaining a sound accounting system. The Chief Controllers of Accounts (CCA) from CGA's organization head the accounts wing in the Ministries lending their professional expertise to provide accounting and accountability support. The internal audit units of the Ministries work under the control of the CCA. There are a total of 49 ministries and 45 departments in the Central Government with 32 internal audit units (IAU) having 311 internal audit staff members. The IAUs are funded through the budget of the concerned Ministry.

2. Governance

2.1 The mandate for the internal audit is derived from the office memorandum of Ministry of Finance issued in June 2006 which states as under:

2.2 The internal audit wings working under the control and supervision of the CCA shall assist the Financial Advisers in the appraisal, monitoring and evaluation of individual schemes. Moving beyond the narrow myopic confines of compliance/regulatory audit internal audit would focus on:

- Assessment of adequacy and effectiveness of internal controls in general and soundness of financial systems and reliability of financial and accounting reports in particular;
- Identification and monitoring of risk factors (including those contained in the Outcome Budget);
- Critical assessment of economy, efficiency and effectiveness of service delivery mechanism to ensure value for money; and
- Providing an effective monitoring system to facilitate on course corrections.

2.3 Though the mandate is comprehensive, the same is being implemented by the CCA in varying degrees depending upon the strength of the internal audit units concerned.

2.4 The internal audit reports are submitted to the Secretary, who is the Head of the administrative Ministry/Department through the Financial Adviser.

3. Structure

3.1 The IAUs are located in the Ministry/Department concerned and are headed by CCAs who are senior officers of the level of senior administrative grade and are sufficiently independent from the executive. The scope of IAU is comprehensive as mentioned above.

4. Standards and Review System

4.1 The Ministries/Departments have their Internal Audit Manual. The manuals

have not been devised with reference to any international internal audit standards. However, the CGA is preparing a generic internal audit manual conforming to international standards to strengthen the internal mechanism in the ministries. On finalization the same would be shared with the internal audit units in the Ministries and shall form the basis for the revised manuals.

4.2 So far as review systems are concerned, the inspection wing of the office of the CGA carries out internal reviews periodically. The CGA has also decided on introduction of a peer review system from the year 2012. The CAG during the course of audit of Ministries/Departments comments on the nature of internal audit in the Ministries.

5. Human Resources

5.1 The staff members of the internal audit units comprise those who have been recruited for maintenance of accounts in the CGA establishment. They are graduates who have passed the departmental examinations concerned. The staff deployed for internal audit work is given training on induction and also on the job.

5.2 In order to motivate them to acquire special qualification like CIA, CGAP, CISA etc. the Government of India has approved reimbursement of expenses incurred in acquiring professional certification.

6. Services

6.1 The internal audit units prepare audit plans covering all the activities of the Ministry/Department before commencement of the financial year. The plan covers primarily compliance and financial audit while performance audit is conducted in a few Ministries. IT audits are not undertaken by the IAUs. So far as adherence to audit plan is concerned, it is seen that out of 2672 units planned, 2129 had been completed in the last financial year indicating substantial adherence to the plan.

6.2 As regards follow up on the audit findings, there is a system whereby internal audit observations are followed up through appropriate remedial action

and a status report is sent to the Financial Advisers/Secretaries of the administrative Ministries concerned.

7. Evaluation of Internal Audit Functions

7.1 As per Allocation of Business Rules, the CGA has powers to inspect the offices to ensure that accounts are maintained accurately and comprehensively and in a correct manner so that requisite technical standards of accounting are maintained. Hence it is imperative that explicit mandate for internal audit is given to the CGA. It is also desirable that the mandate of the standing audit committees in the Ministries is enlarged to include oversight of internal audit mechanism.

7.2 The two distinct areas which would definitely add value to the existing internal audit are:

- 1) Internal Audit units in the Ministries need to be strengthened both in terms of numbers and skill sets. Implementation of the training and certification programme designed by the CGA is expected to ease this constraint in the near future.
- 2) Adoption of risk management framework by Ministries and revision of IA manuals reflecting risk-based approach to internal audit and conformity with international standards would help to modernize internal audit practice in the Government of India.

7.3 The Government of India constituted a working group in December 2010 to develop a suitable model for planning, execution and reporting of internal audit in the Government. As of September 2011, the group has completed its deliberations and the report would be submitted soon.

PART II RELATIONSHIP BETWEEN THE CAG OF INDIA AND IAUs

1. Brief Description of the CAG of India

1.1 The Comptroller and Auditor General of India has been in existence for

over 150 years. The CAG is the Supreme Audit Institution, the sole authority prescribed in the Constitution of India entrusted with the responsibility of the audit of accounts of the Union, the States, and the Union Territory Governments. The CAG is appointed by the President under Article 148 of the Constitution. Article 149 of the Constitution provides that the CAG shall perform such duties and exercise such powers in relation to the accounts of the Union, the States, and of any other authority / body as may be prescribed under law by Parliament. Accordingly, the Parliament passed The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Article 151 of the Constitution provides that the CAG shall submit his reports, in case of the Union, to the President who shall cause them to be laid before each House of Parliament. Similar provisions exist in case of the States.

1.2 The CAG undertakes audits which are broadly categorized as financial audit, compliance audit, and performance audit.

1.3 According to the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, it is the responsibility of the CAG:

- To audit all receipts which are payable into the Consolidated Fund of India and of each State and each Union Territory having a Legislative Assembly and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make for this purpose such examination of the accounts as he thinks fit;
- To audit all expenditure from the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to ascertain whether the money shown in the accounts as having been disbursed was legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it;
- To audit all transactions of the Union and of the States relating to Contingency Funds and Public Accounts;
- To audit all trading, manufacturing, profit and loss accounts and balance sheet and other subsidiary accounts kept in any department of the Union or of a State;

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- To audit the accounts of stores and stock kept in any office or department of the Union or of a State;
 - To audit the receipts and expenditure of bodies or authorities substantially financed by grants or loans from Union or State or Union Territory;
 - To audit the accounts of Government companies in accordance with the Companies Act;
 - To audit the accounts of the corporations established by Parliament and by the State Legislatures in accordance with the respective legislations read with the CAG's (DPC) Act.

1.4 The CAG is also responsible for the audit of local bodies (rural and urban local bodies) under the provisions of some of the State Acts and provides technical and administrative guidance for accounting and audit functions in all the States as per orders issued by the Ministry of Finance, Government of India.

1.5 The Reports submitted by the CAG and laid before each House of Parliament/Legislature are examined by the Committee on Public Accounts (PAC). In case of the Public Enterprises, these Reports are examined by Committee on Public Undertakings (COPU).

2. Cooperation and Coordination between the CAG and IAUs

2.1 The Field Auditing Standards establishing the framework for conducting and managing audit work issued by the CAG of India state that while planning the audit, the internal audit of the audited entity and its work program should be reviewed and an assessment made of the extent of reliance that might be placed on internal audit.

2.2 The CAG of India has prescribed the manual laying down the framework for evaluation of internal controls in the ministries and departments of the Government of India, the State Governments, the parastatal organizations etc. Some of the important objectives include the following:

2.2.1 It is the policy of the CAG of India to encourage and support the establishment of effective internal control in Government. The assessment of

internal control which includes internal audit plays an important part of the CAG's compliance, financial and performance audits.

2.2.2 The SAI auditors need to develop a good working relationship with the internal audit units so that experience and knowledge can be shared and work mutually can be supplemented and complemented so that the benefits to be gained can be maximized. Including internal audit observations and recognizing their contribution in the SAI audit report, when appropriate can also foster relationship. A strong internal audit unit could reduce the audit work of the SAI and avoid needless duplication of work. The SAI auditors should study the internal audit reports, related working papers and compliance to and settlement on internal audit findings.

2.2.3 Although the SAI and IAU auditors have clearly defined roles, they do share the same broad purpose of serving the Parliament and the public helping to ensure the highest standards of regularity and propriety for use of public funds and resources and in promoting efficient, effective and economic public administration. Good cooperation maximizes the benefits which can be gained from working together in areas where there is an overlap in the work to be done.

2.3 The SAI reviews the internal audit reports during audit and comments relate to internal audit unit's organizational structure, audit plan and its execution, extent of coverage and implementation of audit recommendations. Evaluation of internal audit is done by the SAI and the various reports of the CAG have brought to light the deficiencies in the functioning of internal audit units and the need for effecting substantial improvements.

2.4 As already stated, it is the policy of the CAG of India to encourage and support effective internal control systems in the Government. The CAG has also emphasized the need for interface between the SAI and the internal auditors to maximize coverage. A structured framework with identification of areas of cooperation between the internal audit and the SAI audit would facilitate efficient and effective coordination and cooperation.

3. Indonesia

PART I EVALUATION AND IMPROVEMENT OF THE INTERNAL AUDIT SYSTEM

1. Background

1.1 There are two levels of Government in Indonesia: Central and local government. Local government consists of provincial level (upper level) and municipality (lower level). The central government, which is headed by the President, consists of 84 ministries/government agencies³⁾. The local governments consist of 33 provincial governments and 499 regency/municipality governments. The central government has delegated its autonomy to local governments for affairs such as in education, health, and agriculture, except on six areas of affairs in national security and defense, foreign policies, religion affairs, legal affairs, and financial (fiscal and monetary) policy. All of these are audited by Indonesian SAI, the Audit Board of Indonesia (Badan Pemeriksa Keuangan/ BPK RI), whose status and organization are stipulated in the Constitution Year 1945 article 23. BPK RI has approximately 5,000 auditors in 34 central and provincial offices to fulfill its mandatory task of financial auditing and accountability of the governments.

1.2 To share the burden of audit in order to establish an efficient public audit system in Indonesia, at the national level, there are three government auditing institutions. These are:

- BPK RI as the government external audit body;
- BPKP - The Financial and Development Supervisory Board as the government internal audit agency whose audit scope is nationwide and which reports to the President;
- IGs - The Inspectorate-Generals as the government internal auditing unit

3) BPK Semi Annual Report, 2nd Semester 2010

within each ministry/agency. At the central government level, each ministry/agency has its own internal auditing unit (IAU) headed by an Inspector General who reports directly to the Minister.

2. Governance

2.1 Indonesian internal and external audit systems have existed for many years and they were established to promote good governance within the Indonesian state finance management and accountability. These systems have been influenced by legal frameworks in state financial management and accountability, whereas, during the period of 1945 to 2002, the Dutch legal framework of the financial management and accountability (*Indische Comptabiliteitswet /ICW*) played important roles. Then, by 2003, the new Indonesian State-Finance Law was launched to replace it. This State Finance Law was supplemented by two other laws on State Treasury and on Audits of State Finance Management and Accountability. These become a set of laws that contain general principles on government budgetary process and financial management system and serve as a legal framework for public expenditure management and institutional reforms in Indonesia.

2.2 As mentioned above, the set of three laws, which is often called the State Finance-State Treasury-Audit Laws of 2003-2004, do not only become the foundations of state financial management and accountability, but it also becomes the basis for internal and external audit systems.

2.3 BPKP was an IAU institution that was established based on Presidential Decree No. 31 of 1983, amended by Presidential Decree No. 103 of 2001, and Instruction No. 15 of 1983. BPKP mandate is widened by the implementation of government laws (PP) No. 60 of 2008. The main objective for the government is to create an internal auditing agency that assures transparency and accountability of the activities of ministries. This agency submitted information and reports to the President. Despite its roles and responsibilities, BPKP, in fact, has been viewed as external auditing body for the agencies because its position is outside the ministries. In the past years, most of BPKP audit works were designed mainly for examining government's accountability reports and then submitting these reports to the President and each respective minister.

2.4 The system of internal audit within government institution is regulated by PP No. 60 Year 2008. This regulation was developed to give further detail of article in the State Treasury Law (2004) regarding government internal control system. This was created to achieve the following four objectives: compliance with applicable laws and regulations; assurance of the relevant and reliable financial reporting; promoting effective and efficient operations; and safeguarding the organizational assets.

2.5 The head of BPKP is appointed by the President and has to submit internal audit reports to President through Vice President. Meanwhile, the head of IGs in each ministry/agency is an Inspector General who reports directly to the Minister. Similar to BPKP, IGs perform financial-related audit, performance audit and special audit. The work plan of IGs is developed in conjunction with and coordinated by BPKP.

2.6 Currently, there is no regulation that requires government agencies to create audit committees. Therefore, IAUs at Central Government level do not have their own audit committee. Moreover, many IAUs do not have Internal Audit Charter in place. Only IAU in certain ministry, such as Ministry of Finance (MoF), already has its internal audit charter in place.

2.7 To carry out their activities, each IAU sets up an annual audit plan and budget to receive funding from the MoF. The budget is prepared by the IAU, discussed with the MoF, and then approved by the MoF. After the budget is approved, the respective IAU in the ministry can start their audit program as set out in the ministry's annual budget.

2.8 The content of PP No. 60 Year 2008 is divided into two major parts. First, it describes government internal control framework, derived from Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Second, it requires the government to set up an internal audit unit. In general, the elements of the internal control system adopt COSO elements, i.e. Control Environment, Risk Assessment, Control Activities, Information and Communication, and Internal Control Monitoring. The role of IAUs (BPKP and IG) according to this regulation is to monitor the accomplishment of tasks within their area in order to evaluate the effectiveness of internal control system within its unit, and to promote good public governance.

3. Structure

3.1 In summary, there are several internal audit agencies within the Indonesian Central Government (excluding the IAU in SOEs), as follows.

- **BPKP** - Financial and Development Supervisory Board. It is the Central Government's internal audit unit and is directly responsible to the President through Vice President.
- **IGs** - Ministry/Agency Inspectorate General. It is the internal audit unit within each ministry/agency and directly responsible to respective ministers/heads of agency.

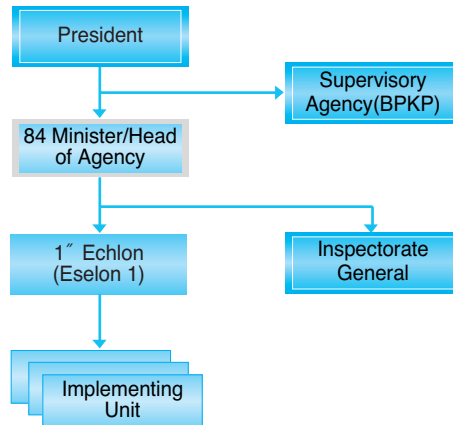
3.2 The Central Government has a financial and development supervisory agency under the Vice President's supervision to do internal audit functions across ministries, agencies, state-owned enterprises, and local governments. The supervisory agency has a headquarters in Jakarta and regional offices in most of the provinces in Indonesia. The head of the supervisory agency is appointed by the President and has to submit internal audit reports to President through Vice President.

3.3 In the ministry/agency, the IAU and head of IAU usually has the equal rank/position to the executive units. For example, in the MoF, the IAU's IG is an Echelon I level unit and directly reports to the minister/head of agency. The equal rank to other executive units within the ministry helps the IG to maintain its independent from the unit they audit. Each ministry or agency has its own internal audit unit, e.g. Inspectorate General (IG). Ministers or head of government agencies appoint their Head of IAU (Inspector General). The Indonesian central bank and state-owned enterprises have their own internal audit divisions. Heads of internal audit divisions are appointed by the central bank governor or board of directors of state-owned enterprises.

3.4 The overall internal audit structure within the Indonesian Government can be briefly described in the following picture.

3.5 IAUs have the power to audit all operational and financial activities within their respective ministry/agency, including evaluation, reviews, and other internal audit functions. In terms of audits, they have been performing mostly compliance or regulatory audits. Few of internal audit units have conducted

Figure 1. Central government internal audit structure in Indonesia



performance audits. In some cases, the Supervisory Agency performed financial audits on state-owned enterprises. The Supervisory Agency, by special request from President or Vice President, has conducted investigative audits on some potential corruption issues.

3.6 The functions of the internal audit unit based on government regulation PP No 60 of 2008 will be discussed briefly in the following paragraphs.

The function of BPKP

3.7 BPKP, which is the government internal audit unit responsible to President, supports the President Accountability System in managing State Finance through several functions⁴⁾.

1. Internal Control of State Finance Accountability on certain activities, which include:
 - Control of cross-sector (cross-agencies) activities. Activities that involve two or more ministries/agencies or local governments in its implementation or execution, which cannot be controlled by the internal

4) PP NO. 60 of 2008 re: Government Internal Control System

audit unit of the ministry/agency, province, or regency/cities governments.

- Control of certain State Treasury Activity based on decision of Ministry of Finance as a State Treasurer (Bendaharawan Umum Negara/BUN). Several executions of State Treasury activities conducted by the Ministry of Finance require cross agencies coordination which also require involvement of internal audit unit at Central Government level.
- Other assignments requested by the President.

2. Review on Central Government Financial Statement (LKPP) before submitted by President to BPK for mandatory audit.
3. Assisting the implementation of Government Internal Control System (SPIP).

3.8 As previously discussed, with the amendment of Constitution 1945, the issuance of State Finance Laws package, and the implementation of SPIP, the roles and function of BPKP as the government internal audit unit is directed toward the quality assurance, consultative partner to the government, and the development of SPIP itself. The role of BPKP concerning SPIP implementation assistance includes development of technical guidelines of SPIP, dissemination, training and education, consultancy services, and internal auditor competency development.

3.9 Other internal audit unit within the Government, other than BPKP, has the main responsibility to strengthen and support the effectiveness of internal control systems within their agencies or local government in order to improve their transparency and accountability. The typical responsibility of the internal audit unit is to inspect and supervise accomplishment of the ministry or government objectives in compliance with the applicable laws and regulations.

3.10 SPIP redefines the main functions of internal audit units within the ministries or governments to include the following:

1. Supervise and inspect the work/activities of the respective ministry or government.
2. Review the financial statement of the ministry or government before submitted to BPK by the respected Minister/Head of Agency.

-
3. Other special purposed supervisory assignment upon request of the Head of Ministry or Government.

4. Standards and Review System

4.1 Most IAUs in Central Government do not have a formal internal audit standard to guide their internal audit activities. Only a few IAUs in certain ministries, such as IG of MoF, have their own internal audit standard and internal audit guidelines. In the case of IAU of MoF, it has an internal audit standard called SAINS (Internal Audit Standard of Inspectorate General of Ministry of Finance) developed by the MoF itself. The internal audit standard adopted by IG of MoF has taken into account some of the standards described in the Institute of Internal Auditor (IIA) Professional Practice Standards and also audit standard set by Indonesia SAI, i.e. SPKN.

4.2 The activities of the IAU are subject to quality review to some extent. The IAU performs the quality review of their works by comparing the audit working papers with the procedures set in the audit standard and guidelines. IAU activities are also reviewed by SAI (in 2009) although it is not done regularly and did not cover all IAUs in all ministries/government agencies.

5. Human Resources

5.1 The number of auditors in IAUs varies according to the size and complexities of the ministry/agency. Some agencies, such as Corruption Eradication Commission (KPK) and Judicial Commission, have only a small number of internal auditors (less than 20 people in each office) and some ministries have bigger number of IAU staff. The MoF has around 250 auditors out of 60,000 staff employed in MoF. BPKP has even the largest number of auditors, which are more than 10,000 auditors within their offices that spread to 33 provinces in Indonesia.

5.2 Currently, there is no regulation that sets the minimum qualification to be eligible to be appointed as the head of IAU. Some agencies set up their own competency criteria for the IAU staff and provide some training in IA area for

their staff. Some of them are also giving their staff opportunity to gain internationally recognized professional certifications to enhance their skills in auditing.

6. Services

6.1 Most IAUs in Central Government conduct compliance and operational audits. Only IAU in certain ministries, such as IAU in MoF, which provides various services ranging from transaction review, compliance audit, financial-related audit, performance audit, IT audit, investigative audit, and risk management activities. However, in a certain area, such as risk management, the IAU is still in an infant or early stage.

6.2 In planning their activities, IAU in certain ministries (such as MoF) takes into account various considerations like requests from their stakeholders to conduct certain audits, risk assessment result, client strategic plan and priorities, etc. This annual plan is also subject to review by their head of IAU. They also have an internal review on the achievement of their plan periodically to evaluate the effectiveness of the plan.

7. Evaluation of Internal Audit Functions

7.1 In the past years and until now, IAUs have encountered many problems as described in the following paragraphs:

1. Negative perception and lack of cooperation from the auditee.

Negative perception and lack of cooperation from the auditee is a common problem within the internal audit professions around the world. It is because usually the auditee perceives that the internal auditors are trying to find their fraudulent practices and punishing them for doing so. Hence, the internal auditors often lose cooperation from the auditee, since the auditee does not consider the IAU as their equal partner for better management.

2. Poor follow up of internal audit recommendations from the management

and from higher authorities.

Many internal audit recommendations are ignored by the management for some reasons. One of the reasons is that they consider the staff of IAU is just a colleague that does not have a power to force the better implementation. Another reason is due to the nature of the findings themselves. If the findings involve fraudulent activities done by middle or top management, then the follow up of the case would be handled internally and even sometimes the case is not properly followed up due to the influence from higher authorities.

3. Redundant audit process.

As previously discussed, each government agency has its own internal audit unit. However, it cannot be avoided that sometimes there are overlapping issues found by IAUs. In some local governments, the redundant internal audit assignments between BPKP, Provincial IGs, and City/regency IGs still exist. For example, the implementing agency (auditee) in a certain city/regency is audited by its inspectorate, Provincial Inspectorate and BPKP at nearly the same period.

4. Narrow focus on compliance and administrative aspects.

Currently, the supervisory role of internal audit is still compliance and administrative oriented when conducting the audit, while the most important issues of performance evaluation of government activities rarely became the focus during audit assignment.

5. Lack of independence.

Lack of independence is felt greatly as the internal audit unit reports directly to the head of entities such as minister/governor/regent/mayor. This situation would be different, in terms of independence, if the audit unit were to report to the audit committee, as in other countries.

6. Lack of competent internal auditors

Most of the internal audit units, especially in local governments, are lacking competent internal auditors due to the lack of accountant in the local government level. It is only a few local governments that have accountant working for their units.

7. Inefficient and Ineffective functions

Since most of internal audit within the government are lacking accountant, they would certainly have issues of efficiency and effectiveness of their duties. For example, to do complex audit or supervisory assignments, they highly rely on the assistance of BPKP.

8. Ineffective relation with SAI

The most common active communication between SAI and internal audit takes place during the external audit (SAI) assignment and the follow up status of SAI's findings. However, there is no requirement to coordinate during the planning phase of internal audit activities.

Ways to Improve

7.2 There are several things to improve works of IAUs and overcome such problems.

These are:

- Recruit more staff with auditing capabilities
- Provide more incentives for internal auditors
- Provide training programs
- Provide a sufficient budget for the work of IAU
- Ensure the independence of Internal Audit Unit
- Active application of internationally accepted internal auditing standards to improve the audit quality
- Promoting the use of computer assisted technology and audit software during IA assignments

PART II RELATIONSHIP BETWEEN THE BPK AND IAUs

1. Brief Description of Indonesian SAI (Badan Pemeriksa Keuangan/ BPK RI)

1.1 BPK RI was established to audit management and accountability of public finance independently. The constitution mandate and the law of audit were followed by the new law of BPK, which give BPK more comprehensive authorities and independent position. The State Audit Law (No. 15 / 2004) and BPK Law (No. 15/2006) lay out the broad legal framework for the operation on the Indonesia's SAI, BPK, to reinforce its position and mandate as an external audit institution reporting to Parliament. While the audit's law takes the important step of establishing BPK, as the only external auditor and the Supreme Audit Institution in the country.

1.2 BPK is a high level state institution independent from the Government (President) and other high level state institutions (Supreme Court, Judicial Commission, Parliament, etc). BPK submits all of its reports to the Parliament (DPR/DPRD). Board members of BPK which are collegial in structure are selected and appointed by the Parliament to maintain its independence. Currently, BPK has one office at headquarters and 33 regional offices in every province as required by the Constitution. These regional offices have the authority to conduct the audit of all local or regional governments' finances and operations (including their owned companies) in the respective provinces and regency/municipal while BPK headquarters is in charge of auditing the Central Government activities.

1.3 BPK has a critical role of overseeing the government's internal control. According to BPK's strategic planning, one of strategic objectives of BPK is to encourage the governments to achieve high standards of good governance. This means that BPK helps the governments to improve their transparency and accountability. Regarding that role, BPK performs three types of audit: financial, performance, and other special purposed audits. In conducting the audits, BPK may issue recommendations to government in order to improve the public governance.

1.4 In terms of corruption eradication, BPK is not primarily designed as an anti-corruption institution. However, BPK has played a central role in deterring corruption by influencing the approaches used to combat corruption. The main contribution of BPK to fight against corruption is the improvement of transparency and accountability to limit the opportunity for acts of corruption. At this level, BPK tries to help the government to eradicate corruption, fraud, and miss-use of public funds. The BPK establishes a special unit to perform investigative audit assignments.

2. Cooperation and Coordination between the BPK and IAUs

2.1 PP No. 60 Year 2008 regarding Government Internal Control System places emphasis on BPKP to conduct cross-sector activities of monitoring state finance, controlling State General Treasury and also assuring SPIP implementation. This includes checks and balance between government entities (Article 12 of PP No. 12 Year 2008). This checks and balance mechanism is done by matching inter-related data issued by several entities.

2.2 IGs (Itjen) of Ministries and the Provincial Internal Control Agency are obligated to review the financial reports of their respective departments/agencies/government before being approved and signed by their Head of Department/Institution or Minister prior to being submitted for audit by BPK. Such preliminary internal reviews by the Government's Internal Control Units (SPI) are expected to give opportunities for respective internal controllers to completely fulfill their financial reporting responsibility to detect any initial signs of frauds and safeguard state's finance from corruptive acts.

2.3 Law 15 of 2004 Article 12 stated that during financial and/or performance audit, the auditor (external auditor) should test and evaluate the effectiveness of internal control system. This could also be achieved by using the work of the internal auditor. Therefore, a good relationship between BPK as the external auditor and the internal auditor at every level of the government is a must. BPK may rely on such internal audit report and reduce the internal control testing required. In this case, the scope of external audit is reduced for audit assignment efficiency.

2.4 The work of internal and external auditors should be coordinated for optimal effectiveness and efficiency of the internal control system in order to promote good public governance. The relationship between the internal and external auditors in Indonesia primarily exists in the form of hierarchical mechanism of internal audit reporting system and during the external audit process. The audit report of IAUs is submitted to the minister/head of agency and the copies are submitted to BPK RI(SAI). The copy of internal audit report submitted to the external auditor (SAI) can be a valuable source of information during the planning phase of external audit process conducted by SAI to evaluate the government activities and promote the good public governance and clean government.

2.5 Another form of relationship between internal and external auditors is usually found during the external auditor's field audit. During the external audit process conducted by BPK RI, the internal audit unit usually becomes the primary liaison between BPK RI audit team and the auditee. In this way, some information required from the auditee is obtained through the assistance of the internal audit, even though sometimes such is not the case.

2.6 In addition to that, based on Article 9 (3) Law no.15 Year 2004, BPK RI would able to use IAUs to perform audit for and on behalf of BPK RI. This would happen in a case when, to perform a certain mandatory audit, there are not enough auditors available or there are no auditors with certain capabilities in BPK RI. However the use of IAUs to perform audit for and on behalf of BPK RI have to meet certain criteria set by BPK RI. Meanwhile the assignment for IAUs in this case is under authorities and approval of related head of IAUs.

2.7 One of the barriers to cooperation and coordination between the IAUs and BPK is the difficulty to set time for following-up previous recommendation. For example, the results of one-time audit of thematic topic are still relevant to be followed-up, however the audit will not be reiterated in the following year. Other barrier is that the working plan of IAUs and BPK are not inter-communicated. This may lead to double audit or duplicate review of the same matters by these auditors.

2.8 To improve this coordination barrier is to provide a discussion meeting on a regular basis for IAUs and BPK so that a common audit planning is yielded and so that priority tasks are understood by both parties.

4. Iran

Part I EVALUATION AND IMPROVEMENT OF THE INTERNAL AUDIT SYSTEM

1. Background

1.1 Now the Central Government of Iran has 22 ministries and 25 governmental agencies and institutions under the executive, based on the Constitution. They are all subject to the audit by the Supreme Audit Court. The detail of the above-mentioned statement is as follows:

- Total Number of Ministries/Departments: 47
- Number of IAUs (in internal inspection unit): 47
- Number of Staff in IAU (in internal inspection unit): about 200
- Number of Ministries/Departments audited by SAC in the Central Government: 47

1.2 At the Central Government level, there is no “internal audit unit” established with the desired properties and functions as per guidelines and standards of INTOSAI. But, in a few organizations and ministries mentioned above, there are some tasks adapted to internal audit function. There are units such as “surveillance and inspection” in all ministries and “disciplinary and surveillance department” in the State Tax Agency, which has been established according to “direct tax act”. Internal audit functions in the units are non-integrated and decentralized.

However, a good example of a centralized and integrated system of internal audit is to be noted in our government structure in Iran. The existing system has a high compliance with the functions of a centralized internal audit framework; hence, this paper has focused on the profile of the system.

The MOF dispatches competent officers of its own official employees to all government organizations and ministries as “internal auditors” to perform the

tasks and assignments set forth by the law. The internal auditor is considered to be an external agent in the beneficiary organization and thus can disregard some administrative tasks assigned; he actually is an internal auditor in the state as a whole and they are altogether to be regarded as a centralized internal audit system. All the officers are under the governance and policies of the Ministry of Finance.

The officers sent off to the public organizations are to validate the financial statements internally and ensure that all laws and regulations are faithfully executed in a healthy manner. A major part of their duties obviously conform to the internal audit function, and, hence they are altogether seen as an internal audit system.

The number of the officers is almost limited to or less than the number of the public agencies to which they are dispatched, and are funded from the state budget. Some officers serve simultaneously in two or more agencies.

The officer functions under the direct supervision of the top management of the beneficiary organization and makes reports directly to him and the ministry, and also to the supreme audit court. In the following paragraphs, we refer to “the officers” as “internal auditors” (IAUs).

2. Governance

2.1 The Public Audit Act explicitly states the quality of appointing the internal auditors with clear and specific roles and responsibilities.

2.2 General practices and the scope of audit and the authorities to which they should be accountable and deliver audit reports have been provided in the Public Audit Act.

2.3 Internal Auditor is independent from the agency’s administration and receives his salary from the Ministry of Finance and is prohibited from receiving any benefit from the agencies subject to his audit (auditees). Current and regular administrative expenses, in the line of duty, are on the agency to be audited. The code of ethics has been developed by the Ministry of Finance and is to be observed by Internal Auditors.

2.4 The mandate of the Internal Auditor has been provided by law and regulations. However, the detail of the duties has been clarified by the Ministry of Economy and Finance.

3. Structure

3.1 Internal Auditor is a middle manager in the agency subject to audit and is in the middle of the auditee's organizational hierarchy, but this does not preclude his audit function. He is well positioned in the auditee's organization so that he can interact with the chief; and has access to all officials and can communicate with them.

3.2 Though Internal Auditor should observe the disciplinary code laid down by the agency and should work under the administrative regulations of the auditee, but his relative independence and objectivity should not be compromised. And in cases where audit findings indicate the occurrence of violations, while recommending corrective actions, he is required to report it to the Supreme Audit Court, even if the chief management is against it.

3.3 The Post of Internal Auditor belongs to the Ministry of Finance as he is not one of the auditee's employees and his duties have been determined in detail according to his general missions prescribed in the Public Audit Act.

3.4 The Internal Auditor within his jurisdiction has vast powers in the agency including audit of revenues and expenditures, contracts and tenders, and properties, assets and stocks; however, he is not allowed to intervene in the auditee's proceedings. The Internal Auditor, along with the proceedings, audits all activities and financial transactions, including expenses and revenues collected using the compliance and financial audit approaches. He should account for the violations occurred in the agency and he has not taken action and reported to the Supreme Audit Court.

4. Standards and Review System

There are a variety of internal control procedures mandated by rules and

regulations, but instead there are not any unified or certified internal audit standards. Internal auditors do not have any written code of conducts/ethics, but the Ministry of Finance is planning to have a written one.

4.1 The standards of auditing and accounting are determined by the audit organization in our country.

4.2 We have some audit manuals and guidelines for IAUs which were determined by the audit organization. For example, we have Audit Standard NO.61 “Assessment of Internal Auditing” and Audit Standard No. 250 “Established Internal Control System & Applying,” but they are not for the public sector (ministries or departments).

4.3 The manuals and guidelines to some extent comply with the IIA Professional Practices Standards.

4.4 There is no systematic and continuous quality assurance measure but some internal quality reviews that are executed by a monitoring department in the Ministry of Finance as appropriate. There is no tool for assessing their performance.

5. Human Resources

5.1 The qualifications of the Internal Auditor have been addressed in the Public Audit Act. Not a clear and specific certificate such as CPA or CMA is required. But those who have degree in Finance/Accounting/Auditing are preferred.

5.2 On the job training (OJT) courses for Internal Auditors are developed and are provided by the Ministry of Finance.

5.3 According to the financial independence from the agency, there is no recognized financial incentive for the internal auditors. The officers receive a monthly salary from the Ministry of Finance. The importance of the agency in the whole government and the potential influence of audits on various aspects of the country may be the internal auditor’s non-financial incentive, the rate of which will differ depending on the agency.

6. Services

6.1 Different types of services are carried out by the Internal Auditors such as transactions review, compliance audit, financial audit, internal control review, performance/value for money audit, and consulting advice on governance and controls. But, most of internal audit services are compliance and financial.

6.2 Internal Auditor does not follow any particular plan as he does not attend the agency for a temporary period of time. He is supposed to have a firm constant surveillance over operations and activities of the agency.

6.3 There isn't any audit plan to be reviewed and not any deadline for submission of audit plan. No risk assessments are carried out.

6.4 Internal Auditor while performing the financial audit function should respect the deadline specified in the Public Audit Act and submit periodic audit reports assigned in the Public Audit Act and other regulations to the Supreme Audit Court and the Ministry of Finance observing the time limits prescribed.

While compliance audit findings indicate the occurrence of deviations, the internal auditor is supposed to recommend corrective actions to the agency. If the management doesn't implement recommendations, the auditor should report the findings to the Supreme Audit Court and the Ministry of Finance according to the Public Audit Act.

6.5 There is a system in place for follow-up action on audit findings and recommendations. The Ministry of Finance has regular reviews of recommendations, implementation and prevention of recurrence. Also, according to SAC Act Article 23, SAC can follow up on the findings of internal audit.

7. Evaluation of Internal Audit Functions

7.1 Constraints

- Some non-audit tasks assigned to the Internal Auditor that to some extent compromises his internal audit functions and objectivity;
- Sometimes the agency tries to influence the internal auditor to take a desired action;

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- Shortage of professional qualified staff;
 - Lack of professional standards.

7.2 Ways to Improve

- Removing non-audit tasks assigned to the Internal Auditor;
- Providing requirements for maximum independence, so that no lobbying occurs;
- Holding training course for improving and upgrading internal audit knowledge and experience;
- Use of internationally accepted standards for internal auditing;
- Planning to provide the necessary incentives for internal auditors;
- Change of organization chart of ministries/departments and anticipation department of internal audit for them.

Part II RELATIONSHIP BETWEEN THE SAC OF IRAN AND IAUs

1. Brief Description of the SAC of Iran

1.1 Mandate, Nature of audits, Powers and Responsibilities: The Supreme Audit Court (SAC of Iran) operates under the direct supervision of the Parliament. The objective of the Supreme Audit Court as stated in the Articles of the Constitution of the Islamic Republic of Iran, is the exertion of continuous financial control and supervision in order to safeguard the public fund.

The Supreme Audit Court (SAI of IRAN) shall examine or audit, in a manner stipulated by law (the SAC Act), all accounts of ministries, government companies, institutions, and other organizations which benefit from the State budget, to ensure that no expenditure exceeds legislated funds and that each sum has been spent for its allotted purpose. The SAC shall submit the audit report on each year's annual budget (the annual fund settlement report) together with its

own comments to the Parliament. The report should be made public.

Responsibilities and Powers:

- Examining or auditing all the revenues and expenditures, receipts and payments, as well as financial statements of organizations to ensure that they comply with relevant laws and financial regulations. (Regularity audit including compliance and financial audit).
- Examining the financial operations in organizations to ensure that expected revenues have been obtained and deposited to the related accounts timely and properly and that expenditures and other receipts and payments are correct.
- Examining and ensuring that appropriate financial methods and practices have been established and applied effectively in order to achieve the auditees' objectives. (Effectiveness of internal control system).
- Commenting on the necessity of the existence of the internal control structure or the inefficiency of the existing system in the auditees. This opinion is expressed according to audit reports and reviews in order to safeguard the public fund. The responsibilities and roles of SAI of Iran are according to ISSAI 9150:

The regularity audit embraces, amongst others, the attestation of financial accountability of 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).

2. Cooperation and Coordination between the SAC and IAUs

2.1 Numerous laws/regulations govern the relationship between the Supreme Audit Court and the Internal Auditor, such as the SAC Act and the Public Audit Act, and are mainly related to the internal auditor's assignments against the Supreme Audit Court. For example, the SAC must be provided with internal audit reports immediately in the case of in-person or written request.

2.2 Internal Auditor shall submit audit reports to the agency, Ministry of Finance, and the Supreme Audit Court within the deadline set by the Public Audit Act. The mentioned ministry is required to report periodically on the overall performance of the government to the Supreme Audit Court after confirming all the agencies' audit reports. According to the SAC Act, Supreme Audit Court can prosecute the perpetrators of wrongdoing in the agencies on the basis of the internal audit reports. Auditors of the SAC are closely associated with the internal auditors in the agencies; this mutual interaction is generally to the benefit of both parties and leads to the effectiveness of public audit. Numerous joint meetings are held between the Supreme Audit Court auditors and the internal auditors and the officials of both parties in order to promote cooperation and coordination towards more effective audits.

2.3 The work of Internal Auditors is not based on specifically-recognized formal standards so they don't have a high rate of reliance.

2.4 Some aspects of IAUs such as adequacy and efficiency are evaluated by SAI. Their reports are evaluated, and the contents are used. Sometimes audit recommendations included in the reports can be followed up by SAI. In appropriate cases, ordinarily Internal Auditors' audit findings are reviewed by SAC auditors. According to the 6th Article of the SAC Act, Supreme Audit Court has the mandate to comment on the necessity of the efficiency of the internal control structure in place in the auditees. Accordingly, the Supreme Audit Court can comment on the efficiency of internal audit units (Internal Auditor) in all functional aspects. This opinion is expressed according to audit reports and reviews implemented.

2.5 In cases where the regulations specify how to interact, not such serious barriers are seen for coordination and cooperation. But in other cases of voluntary cooperation, different audit levels and approaches between the Supreme Audit Court and the Internal Auditor lead to a difference in opinion and work style that is sometimes followed by sort of barriers to cooperation and coordination. For example, little knowledge and experience of the internal auditors about performance audit approach is considered as one of the barriers to cooperation and coordination in the joint performance audit projects. As the Internal Auditor is one of the main parties involved in the performance audit process, and his effective collaboration affects the success of such audits.

2.6 To overcome the barriers mentioned in the previous paragraph, the Supreme Audit Court has planned to promote the performance audit approach among the performance audit stakeholders community including the internal auditors that are proven to be an effective party in the success of performance audits. Reaching that requires setting up interaction programs such as holding regular meetings; holding joint training workshops; sharing information resources and joint audit projects. Such interactions have increased in recent years.

Besides, if we can clarify, benefits and value of cooperation and coordination between SAC and Internal Auditors for the related authorities, they would be willing for the collaboration and will volunteer to remove obstacles. It is obvious that this project will bring us valuable achievements in this regard, and we are hopeful.

5. Iraq

PART I EVALUATION AND IMPROVEMENT OF THE INTERNAL AUDIT SYSTEM

1. Background

1.1 There are three powers in Iraq: legislative, executive, and judicial. All ministries in Iraq are linked to executive power. The number of ministries is 42. The ministries are subject to the audit of accounting, according to the Board of Supreme Audit (BSA) Law 6 of 1990 (amended).

1.2 IAUs in Iraq are funded by different sources. Some IAUs are in an internal audit office. Other IAUs are in a central-funded office in a self-funded office (just for construction budget), or in a sub-management office. The BSA audits the IAUs according to the contrapuntal offices of BSA as detailed below:

Table 1. Number of IAUs and Manpower

Classification	Number of IAUs in central-funded office	Number of IAUs in self-funded office	Number of IAUs in sub-management office	Total
Ministries and Departments	297	694	2,239	3,230
Staff	-	-	-	11,500

The table above shows that 100% of the central-funded offices, 100% of the self-funded offices, and 33.3% of the sub-management offices are audited annually. The total number of IAUs is 3230. The total number of employees per unit is twenty (20) in the central-funded office, four (4) in the self-funded office, and three (3) in the sub-management office.

2. Governance

2.1 The Financial Management and Public Debt Law No./95 in 2004 (amended) states that the ministries and the governmental units should include IAUs. The Ministry of Finance determines the methods and the procedures performed by the IAUs.

2.2 Auditing detects cases of fraud, embezzlement, and waste of public money. Under Law No./57 in 2004, Inspector General Offices have been established in the ministries, governmental units, and IAUs. Each of these entities is subjected to examination and to audit investigation in order to achieve the objectives of raising the level of responsibility and integrity, the level of performance, and the level of efficiency and effectiveness. To meet these objectives, the Inspector General Offices contribute by giving opinions on the laws, resolutions, instructions, and general policies that are directly related to the activities of the ministries, governmental units, and IAUs, in coordination with the bodies fighting against corruption — such as the BSA and the Integrity Commission — through reporting and investigations.

2.3 Iraq does not yet have audit committees, since the process for their formation is still under study.

2.4 There are two types of funding for government units in Iraq: central-funded units and self-funded units. Central-funded units are funded by the Ministry of Finance, but self-funded units (companies) are funded by the unit itself. However, IAUs responsible for construction accounts are funded by the Ministry of Finance.

2.5 The functions of the IAUs are governed by the Law on the Code of Accounting No./28 of 1940, by the Law of Financial Management and General Debt No./95 of 2004 (amended), and by the Board of Accounting and Audit Standards [Standards Board] audit guideline No./4 (out of six guidelines), which issues evidence obtained from study and evaluation of the internal control system, based on the instructions issued by the legislative authority. The Ministry of Finance governs the functions of the central-funded IAUs.

3. Structure

3.1 The office/department of audit and control is the highest level of IAUs in the ministries, because of being directly linked with the minister or the deputy minister. In 2004, the Inspector General Offices were established in the ministries. At that time, some of the IAUs became linked to the Inspector General Offices which, in turn, were linked with the minister or the deputy minister. Through these two links, the IAUs could cover the activities of all offices, departments, and branches of the ministries.

3.2 The activity of IAUs covers all the works of the ministries. Therefore, through performance of their duties, as represented by the audit services and by the different advisory activities, the IAUs can ensure the quality of the works of the ministries. Further, the IAUs have a role in improving and adding value to the operations in the ministries and to assist the ministries in achieving their goals by applying technical tools for developing and evaluating the effectiveness of management activities and controls.

3.3 IAUs are linked on two levels, technically and administratively. They are linked technically with the highest level — either with the department of audit and control or with the Inspector General Office headed by — the Director General. They are linked administratively with a sub-management office. Sometimes, they are linked both technically and administratively with the sub-management office.

3.4 The laws and standards determine the tasks and the authorities of the IAUs, which can be summarized as follows:

- Comprehensive audit and examination of all aspects of activity of the institutes (financial, administrative, and technical) — considering the periodical reports of the activity of sub-offices - comparing them with the drawn-up plans — checking the levels of implementation of specific objectives by requesting the necessary clarifications and deviations on which to give an opinion;
- Contribution to and supervision of all inventories — the inventories of fixed assets, the during-year inventories, and the year-end inventories;
- Follow-up of the work of the committees formed at the facility and

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- verification of the performance of their duties properly and without delay;
- Audit of the final statement of the facility and follow-up for adhering to the requirements and for considering the recommendations of the audit report for the facility;
 - Follow-up on the procedures for offices and departments to act on the observations contained in the reports of the BSA;
 - Revision and examination of procedures and requirements of internal control systems adopted periodically according to circumstances in order further to develop these systems;
 - Contribution to the preparation of systems and to the studies required by management and other parties;
 - Issuing of periodic reports containing the results of the work of the IAU and delivering these reports directly to the senior management;
 - Follow-up on the observations/requirements/recommendations of investigative commissions and prosecutions by urging compliance as soon as possible;
 - Coordination and cooperation with the BSA and audit work teams in the area of audit and control.

4. Standards and Review System

4.1 IAUs in Iraq work in accordance with international standards and also with the local standards issued by the Board of Accounting and Auditing Standards [Standards Board] of Iraq. The Standards Board was formed according to the Article 2 and with Article 23/ Item 2 of BSA Law No. 6 in 1990 (amended)].

4.2 The Standards Board issued fourteen (14) bases of accounting and six (6) guidelines of auditing. All offices, departments, and ministries are obligated to implement these bases and guidelines of the Standards Board. In particular, audit guideline No./4 (out of the six guidelines) is based on the instructions issued by the legislative authority and is concerned with the study and evaluation of the internal control system, which determines the functions of the IAUs. Therefore, these standards, in the form of the bases and guidelines, are significant.

4.3 Board of Supreme Audit has issued a reference guide to cover all the activities of the IAUs.

4.4 IAUs in Iraq do not sufficiently comply with the Institute of Internal Auditors (IIA) Standards.

4.5 IAUs in Iraq are reviewed by two bodies:

- Internal body, which is represented by the Inspector General Offices:

According to Law No./57 in 2004, the Inspector General Offices are committed to review and to check the internal audit systems of the IAUs.

- External body, which is represented by the BSA:

According to Article 2 of BSA Law No./6 in 1990 (amended), the BSA audits all governmental units, including IAUs, in Iraq.

5. Human Resources

5.1 Because of the expansion of activity in ministries and their departments, the offices require staff members who are specialists, experienced, and able to perform their duties efficiently. The managers must hold the academic qualification of a bachelor degree in accounting or management. The guidebook of IAUs has the following functions:

- To set the job descriptions for all jobs;
- To adopt the principles of functioning in different jobs;
- To set incentive award policies for good performance on the job;
- To set written, clear, and direct instructions showing the employee's duties and rights.

5.2 Human resource development is accomplished in two ways:

- The Financial and Accounting Training Center, which was established as a department in the Ministry of Finance by Law No./93 in 1981, holds qualification courses and training programs in all specialties: auditing, accounting, financial, and economic. These qualification courses and training

programs are available to all IAUs in the ministries and to the staff of the BSA according to an annual plan.

- The BSA in Iraq periodically provides training programs for the internal auditors, the General Inspector, and the employees of the Integrity Commission in order to increase their skills and performance efficiency. In the BSA, the trainers who participate in these training programs have good experience in auditing and control systems, and they facilitate the exchange of information between the BSA and the internal auditors employed in these offices, departments, and ministries.

5.3 The salaries of internal auditors are calculated according to the Law of State Employees' Salaries No./22 in 2008, and internal auditors are not granted incentive awards for their work in IAUs.

6. Services

6.1 Four types of services are carried out by the IAU:

- Transactions Review
- Compliance Audit
- Financial Audit
- Consulting advice on governance and controls

6.2 IAUs prepare annual plans, including the nature and size of activities of the ministries. The Inspector General follows the implementation of these plans and measures the level of achievement.

6.3 When preparing the audit plans of IAUs, risk management/risk assessment must be taken into consideration.

6.4 IAUs submit monthly, quarterly and annual reports in a timely manner.

6.5 The Inspector General Office follows up the observations and recommendations contained in the reports of the IAUs.

7. Evaluation of the Internal Audit Functions

7.1 IAUs suffer from a lack of adequate numbers of staff, a lack of skilled and experienced staff, and a lack of material support from senior management. This situation is due to the political and social conditions of the state, which has a large negative impact on the functioning of the IAUs.

7.2 The best ways to improve the function and performance of IAUs is as follows:

- To ensure the independence of the IAUs;
- To provide the legal basis for governance of the IAUs;
- To provide the IAUs with the material and moral support of the senior management;
- To provide the academic qualifications and the practical training for employees of IAUs;
- To ensure the professionalism, the high efficiency, and the functional independence of the IAUs;
- To increase the number of training courses on the methodology of modern auditing and increase the number of participants in these training courses in order to raise the efficiency and performance of IAUs.

PART II RELATIONSHIP BETWEEN THE BSA AND IAUs

1. Brief Description of Origin and Roles of BSA

1.1 Origin of BSA

The Office of Auditing General Accounts was established in accordance with the Law No./17 in 1927; later, it became known as the Board of Accounts Auditor General; still later, it became known as the Board of Supreme Audit (BSA), based on the Law of the Board of Supreme Audit No./6 in 1990 (amended).

1.2 Roles of BSA

The Law of the Board of Supreme Audit No./6 in 1990 (amended) was enacted and came into force for the following purposes:

- To set the role, duties, and specialties of the BSA;
- To enhance the role of the BSA for participating in improving the performance of the institutions of the state;
- To enable the BSA to obtain the staff members who fulfill its academic and experience requirements;
- To enable the BSA to obtain its needed resources, including civil equipments and information;
- To give an opinion about the truth of financial situations and the results of activities;
- To evaluate the performance of executive institutions under its review;
- To establish administrative and organizational structures that are compatible with the phases of the development of the national economy;
- To give sufficient flexibility to the BSA in planning and assigning duties and specialties;
- To secure the central supervision required for directing control tasks and for developing the basic principles of planning, implementing, and following up the results of such tasks;
- To enable the BSA to cover all the services and institutions in the governorates of the state, with auditing and supervision at the highest level of competence and efficiency.

2. Scope and Nature of Audit:

2.1 Scope of Audit

The scope of audit extends to the following:

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- All ministries and government departments and their affiliates.
 - Public corporations and all other units and agencies which have independent budgets but which receive financial assistance.
 - All private enterprises or companies to the capitals of which the government contributes.

2.2 Nature of Audit

The nature of audit encompasses the following:

- Controlling and auditing accounts of parties subject to such control and making certain to apply financial laws, regulations, and instructions.
- Controlling and assessing performance.
- Offering technical support in the audit and control field.
- Investigating and informing on the level of efficiency of the use of public wealth as it is officially required by the national legislative authority.

3. Power and Responsibility of Audit

The power and responsibility of audit lies in the authority invested in the BSA.

- BSA has the authority to audit the secretive programs and to issue the secret reports, since the auditor has the proper security authorization.
- BSA has the authority to conduct financial evaluation of the state contracts.
- BSA has the right to be acquainted with the documents and dealings relevant to the financial control tasks, whether ordinary or secretive.
- Article 1 of the Law of Board of Supreme Audit No./6 in 1990 (amended) states that the BSA should work with the Integrity Commission and with the Inspector General of all ministries in order to ensure good governance through transparency and accountability by the Government of Iraq for the sake of the Iraqi people.
- Article 2 of the Law of Board of Supreme Audit No./6 in 1990 (amended)

states that the BSA should provide technical assistance in the accounting and auditing fields and in the administrative and regulatory aspects of the audited office.

4. Corruption, Waste, and Misuse of Public Funds:

The Law of BSA No./6 in 1990 (amended) states that all allegations and evidence of corruption, waste, and misuse of public funds should be referred to the Inspector General Offices in the ministries.

5. Cooperation and Coordination between the BSA and IAUs

5.1 Enablers of Cooperation and Coordination

The guidance issued by BSA clarifies the nature of the cooperation and coordination between the IAUs and the BSA as follows:

- IAUs consult BSA when they are designing annual plans, and then the IAUs provide the BSA with copies of these annual plans.
- IAUs provide the BSA with copies of annual reports prepared by the IAUs.
- IAUs hold meetings with BSA representatives for benefiting from their experiences.

5.2 Constraints to Cooperation and Coordination

Certain obstacles hinder the cooperation and coordination between the IAUs and the BSA in Iraq, summarized as follows:

- Restricted nature of organizational structure of IAUs.
- Lack of practical experience and lack of scientific efficiency of internal auditors in the IAUs, thus expanding the gap between IAU auditors and BSA auditors and thereby negatively affecting cooperation and coordination between the BSA and the IAUs.
- Lack of participation by internal auditors in meetings and conferences. These

meetings and conferences could contribute widely to education on financial control and thus could enhance the relationship between the IAUs and the BSA.

6. Evaluations by the BSA

- The BSA evaluates internal control systems by investigating whether the IAUs are committed to implementing the policies and procedures entrusted to them. This evaluation represents a starting point in the work of the BSA. The evaluation is the basis for determining the audit methodology and the size of the tests (audit samples). The evaluation is the means of identifying the weaknesses in procedures and correspondingly of identifying recommendations on how to treat these weakness.
- The BSA evaluates the performance IAUs, by focusing on the important aspects of their work, particularly by measuring their actual achievements against their plans and by determining the effectiveness of their programs.

7. Ways to Improve the Relationship between IAUs and BSA

The ways to improve IAUs and their relationships with the BSA are as follows:

- To commit to the functional description of human resources, according to the specializations of the IAUs.
- To develop the organizational structure of the IAUs, including the scope of the work of the IAUs in comparison with the size and activity of the ministries.
- To urge the senior management to increase the participation of internal auditors in meetings and workshops for improving the quality of their audit work.
- To maintain the independence of IAUs in order to increase transparency in the performance of their work, resulting in a technically independent opinion without interference by the senior management.

6. Korea

PART I EVALUATION AND IMPROVEMENT OF THE INTERNAL AUDIT SYSTEM

1. Background

1.1 There are three levels of government in Korea: central, upper-level (or regional) and lower-level of local government. The central government consists of 44 ministries and departments, including various commissions. The supreme audit institution is the Board of Audit and Inspection (BAI), whose functions, status and organization are stipulated in the Constitution. BAI is an organization with the council system in which the work is processed by the Council of Commissioners. The distinctive feature of BAI is to carry out inspection as well as verification of the final accounts of the state and various types of audits. All central government ministries and departments are audited by the BAI of Korea. There are a total of 8,523 entities at the central level, including subsidiaries, audited by BAI.

1.2 Since BAI has only about 800 auditors, it became inevitable for internal audit to share the burden of audit in order to establish an efficient public audit system. Most ministries and departments have their own internal audit units. There have been discussions on the ineffectiveness of internal audit in the public sector in Korea, and the Public Sector Internal Audit Act was enacted in March 2010, which went into effect in July 2010. The Act requires that ministries and departments at the central-level, upper-level and lower-level local governments with populations over 300 thousands establish independent internal audit units. As of May 2011, there are 41 ministries and departments that are mandated by the Act.

1.3 In order to strengthen the independence and professionalism of internal auditors, the Public Sector Internal Audit Act requires each ministry and department appoint the head of the internal audit unit through the open competition system. As of May 2011, 32 of 41 ministries and departments

established independent internal audit units that exclusively carry out audit-related work, and 24 of 32 ministries and departments had recruited the Head of the IAU through open competition. Among 24 Chief Audit Executives (CAEs), 8 CAEs were transferred from the BAI of Korea. The number of IAUs and manpower are presented in Table 1.

Table 1: Number of IAUs and Manpower

Classification	Number of IAUs	Number of Staff	Number of Entities Audited by SAI
Ministries/Departments	41	670	8,523
Subsidiaries	45	587	

2. Governance

2.1 As mentioned, the Public Sector Internal Audit Act of 2010 requires the establishment of Internal Audit Units (IAUs) in governmental bodies. The Act is comprised of 6 chapters, including provisions on general principle, operations of internal audit, internal audit activities, improving the internal audit system, and supporting internal audit activities. The main features of the Act are as follows:

- Require each ministry/department establish an independent IAU and recruit the head of the IAU through open recruitment rather than internal promotion;
- Specify the qualifications for the Heads of IAUs and internal auditors, and include provisions on promoting the retention of internal auditors to foster professionalism;
- Stipulate the authority of internal auditors in terms of performing audits and following up on actions taken as the result of audit findings and recommendations;
- Provide various measures to improve the public audit system, including the establishment of a Joint Coordination Committee, the preparation of a comprehensive policy for improving internal audit, the construction of audit information systems, etc.; and
- Present ways for the SAI to support internal audits through consultation,

review of internal audit activities, lending of staff, education and training, etc.

2.2 As of May 2011, as mentioned above, 32 out of 41 ministries and departments had established independent internal audit units, and the Heads of IAUs report to the Heads of ministries and departments, which help secure independence. Regarding Audit Committees, most ministries and departments do not establish audit committees. The Public Sector Internal Audit Act includes a provision that supports the utilization of Advisory Committees for the Head of the ministry or the Head of the IAU.

2.3 The IAUs are funded through the annual budget of their ministries, which means that the budgets of the IAUs are prepared without considering the special aspects of audit tasks.

2.4 The Public Sector Internal Audit Act of 2010 covers internal audit functions in the public sector, including central government. Other regulations and standards that govern internal audit functions in the public sector are as follows:

- Decree on the Public Sector Internal Audit Act of 2010, adopted in December 2010;
- Act on Operation of Public Bodies, which governs the internal audit function in SOEs and public bodies, including quasi-public bodies;
- Internal Audit Standards of Central and Local Governments, adopted in 2010;
- Local Audit Regulation, which was adopted in 1990, but became obsolete; and
- Audit Standards for SOEs and quasi-government bodies, as a form of directive of the Ministry of Planning and Finance.

3. Structure

3.1 There is an IAU in each ministry or department at the central government level. The IAUs are established either under a minister or a deputy minister. The Heads of IAUs in 19 of 41 ministries and departments are at senior management

level while the rest are at the middle management level.

3.2 The IAUs in most ministries and departments cover all aspects of the concerned organization and subsidiaries. Most IAUs are focused on auditing various activities in subsidiaries rather than the internal control of their organization. The types of audits that IAUs carry out are as follows:

- Comprehensive audit, which reviews major functions, missions, organization, personnel, and the budget of the organization in terms of legality and validity;
- Special audit, which focuses on getting root causes of problem and responsibilities, and making recommendations to improve the use of special fund and implementation of policies and projects;
- Financial audit, which examines and assures whether the auditee's accounts present a true and fair view of financial condition and operations of the organization;
- Performance audit, which focuses on analyses and evaluations of policies, projects, and organizations in terms of economy, efficiency, and effectiveness; and
- Inspection, which reviews work performed by organizations and duties of their employees.

4. Standards and Review System

4.1 There are several different audit standards set by different authorities. The Public Sector Internal Audit Act stipulates that the BAI of Korea can issue internal audit standards and a code of conduct for central and local government internal auditors as a form of regulation. Based on the Public Sector Internal Audit Act, the Internal Audit Standards of Central and Local Governments were issued in December 2010. The Ministry of Administration and Security issued the Local Audit Regulation of 1990, which is now obsolete. In addition, all IAUs in the central government have their own internal audit regulations and some ministries and departments also have internal control regulations.

4.2 The Internal Audit Standards of Central and Local Governments do not

explicitly follow IIA Professional Practice Standards or INTOSAI Standards. However, various international standards were incorporated when establishing the Internal Audit Standards of Central and Local Governments.

4.3 Regarding the review system of internal audit in the Korean government sector, internal reviews are not being conducted. External review is carried out by the Supreme Audit Institution. Article 39 of the Public Sector Internal Audit Act states that the BAI of Korea can evaluate operations of the IAU, compliance with audit standards and codes of conduct, internal audit activities, actions taken based on audit findings and recommendations, etc. Before the Public Sector Internal Audit Act was enacted, BAI review was conducted based on the BAI Act and regulation.

4.4 Each year the BAI of Korea provides the evaluation plan with a list of auditees and indicators. The purpose of evaluation is to induce IAUs to improve and enhance overall audit capacity in the country as a whole. There is a committee for the evaluation of internal audit activities, whose members include the Secretary General, deputy secretaries and other senior managers at BAI, and external experts. The evaluation results are resolved after deliberation at the Council of Commissioners and are to be reported to the National Assembly beginning in 2012. The BAI of Korea audits internal audit activities for ministries and departments in the lower bracket, and can recommend the removal of the Head of IAUs in any case where they are neglecting their duties and responsibilities.

5. Human Resources

5.1 One of the issues of internal audit is a lack of professional competency and skills among internal auditors. The average experience of internal auditors is about 2 years, which indicates a lack of opportunities for acquiring knowledge and developing skills as internal auditors. Most internal auditors in the central government are government employees who passed the entrance exam and worked at various divisions within the organization. As of May 2011, less than 10% of internal auditors held professional certificates, such as CPA, CIA, etc. Therefore, there have been discussions among academics and practitioners who would like to find ways to improve professionalism among internal auditors.

5.2 The Public Sector Internal Audit Act states that the Heads of IAUs should be appointed through open recruitment, and that the Heads of ministries and departments should appoint internal auditors with professional competency. Stipulated in the Public Sector Internal Audit Act, the minimum requirement for eligibility to become the Head of IAUs is the fulfillment of one of the following criteria:

- Over 3 years of experience as public officials in the areas of audit, investigation, judicial affairs, accounting, planning, evaluation, etc.;
- Over 3 years of experience as a judge, prosecutor, attorney, or accountant;
- Over 3 years of experience as at least Assistant Professor in an audit-related field;
- Over 3 years of audit experience as the head of department in the listed companies;
- Over 3 years of audit experience as the head of department at a research institute; or
- Having a specialty in technology, health, tax, or environment and meeting the eligibility criteria under the Presidential Decree.

The eligibility criteria for internal auditors are having 2 years of experience in the same ministry/department or as auditors in other ministries or departments, and having one of the following;

- Professional certificates or an associate degree in the field of auditing; or
- Professional competency, qualifications, and aptitudes for auditing.

5.3 As for training, the Audit and Inspection Training Institute provides programs for internal auditors. The average amount of hours that internal auditors spend for education and training are 25 hours per year; the BAI of Korea recommends at least 40 hours of audit-related education and training.

6. Services

6.1 Internal audit units at the central level carry out various types of audits, but

mainly focus on legality and inspection. Performance audits are rarely conducted by internal auditors. There is more focus on ex-post than on ex-ante (pre-audit) by IAUs. Pre-audits can prevent problems from occurring, but the heads of ministries and departments lack interest in constructing internal control systems.

6.2 Practices on how to prepare audit plan vary among ministries and departments. Some ministries and departments prepare audit plans based on risk assessment through analyses of environments and monitoring potential risk areas, while others do not follow systematic procedures for preparing audit plans. The audit plans should be submitted in December of the previous fiscal year for review.

6.3 In order to prevent duplication and overlap between audit activities in the BAI and IAUs, the Joint Coordination Committee reviews audit plans prepared by the BAI and IAUs and makes adjustments.

6.4 There is no system in place for follow-up once recommendations are made and delivered to auditees. IAUs do not follow up actions taken as a result of audit findings and recommendations; nor do they receive feedback from auditees.

7. Evaluation of Internal Audit Functions

7.1 The constraints in the functioning of IAUs in the central ministries and departments are:

- For some departments, the rank of the Head of IAU is lower than the head of audited units, which is one of the barriers to securing independence;
- Lack of staff with competency and adequate skills and training programs;
- Non-compliance with appropriate audit procedures;
- Ineffective internal control system, focusing on ex-post and compliance; and
- Lack of a quality control system and follow-up on audit recommendations

7.2 Ways to improve internal audit functions are:

- Acquire sufficient resources, such as professional staff, funding, etc.;

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- Strengthen the Head of IAUs powers, including nomination of internal auditors in terms of appointment and removal;
 - Develop strategies to enhance the professional capacity of internal auditors;
 - Modernize the audit function by implementing needs-based audit planning, strengthening the internal control system, etc; and
 - Enhance the quality of audit through self-evaluation of performance and communication with audited organizations.

PART II RELATIONSHIP BETWEEN THE BAI OF KOREA AND IAUs

1. Brief Description of the BAI of Korea

1.1 BAI is a constitutional agency whose functions, status and organization are stipulated in Articles 97 to 100 of the Constitution. The current Board of Audit and Inspection was established in 1963, under the Board of Audit and Inspection Act, by merging the Board of Audit and the Commission of Inspection.

1.2 BAI is established under the President, but retains independence in performing duties. In order to ensure the independence of BAI, the Chairman of BAI is appointed by the President with the consent of the National Assembly. The term of the Chairman is four years with one-time reappointment possible. BAI is an organization with a council system in which the work is processed by the Council of Commissioners.

1.3 Duties and functions of BAI based on the Constitution and the BAI Act are as follows:

- Examination of final accounts of revenues and expenditures of the State;
- Financial audit of the accounts of central/local governments, government-invested organizations prescribed by law;
- Inspection of works performed by central/local government agencies;
- Examination of the claims against administrative actions filed with BAI; and

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- Training auditors and accounting officials, and conducting audit research.

2. Cooperation and Coordination between the BAI and IAUs

2.1 The Public Sector Internal Audit Act of 2010 include chapters on the improvement of the audit system and the BAI's support to IAUs, considering the importance of coordinating audit activities between the BAI and IAUs, and to avoid duplication. Provisions in the Public Sector Internal Audit Act with regards to improving the public audit system are as follows:

- BAI establishes the Joint Coordination Committee in order to discuss and coordinate matters related to improving and developing the public audit system;
- BAI establishes and implements comprehensive policies for improving the internal audit system based on alternatives to the heads of ministries and departments' suggestions;
- Heads of IAUs utilize BAI's audit findings and results except in the case of new findings or omissions;
- BAI and heads of ministries and departments consult with each other, and sometimes IAUs carry out audits on behalf of BAI to avoid duplication and to enhance efficiency;
- BAI can construct an audit information system to share knowledge and experience in auditing and to avoid duplication between the BAI and IAUs; and
- The BAI can prepare internal audit standards and codes of conduct for internal auditors.

Provisions regarding the BAI's support activities are as follows:

- The BAI supports IAUs through consulting on audit planning and methodology to improve internal audit and carry out audit tasks in an efficient manner;
- The head of ministries and departments can ask for secondment and the BAI should respond;

-
- The BAI provides education and training for internal auditors in the fields of auditing and accounting; and
 - The BAI can evaluate operations of IAUs, compliance with internal audit standards and codes of conduct, internal audit activities, audit results and actions taken, etc.

2.2 The mechanism of coordination between the BAI and IAUs in Korea is mainly through regular meetings. Each year, senior managers and heads of IAUs meet annually to discuss audit directions and major issues for auditing. In addition, the Joint Coordination Committee meets quarterly to discuss audit plans, cooperation between IAUs, comprehensive policies, audit standards, etc. The Head of the Committee is BAI's Secretary General and there are about 20 members, including Heads of IAUs nominated by the Minister of Public Administration and Security, Heads of IAUs nominated by the Minister of Planning and Finance, senior public officials appointed by the Chairman of BAI, and external experts.

2.3 The BAI reviews 4 aspects of IAUs and internal audit activities: a) IAUs and human resources (20%), b) audit activities (40%), c) audit performance (30%), and d) management of follow-up actions (10%). Indicators for measuring IAUs and human resources aspects include the establishment of independent IAUs, the number of staff, appointment of the Head of the IAU based on open recruitment, efforts made to enhance professional competency of internal auditors, average length of employment as internal auditors, and the number of hours spent for education and training. Sub-criteria for audit activities are pre-audit activities, field audit activities, audit results, and utilization of audit resources. Indicators employed for various audit activities include efforts made for conducting pre-audits, the number of crimes occurred or findings made by external auditors, the degree of cooperation with related agencies, utilization of an information system, etc. Audit performance is measured in monetary, personnel, and other administrative terms, including the number of indemnifications, censures, accusations, etc. Measures used for the management of follow-up actions include the extent of implementation on audit findings and recommendations by internal and external auditors, and the publication of audit reports.

2.4 The BAI, as a Supreme Audit Institution, is aware of the importance of

coordination and cooperation with the IAUs in order to improve the efficiency and effectiveness of the public audit system. The BAI plays a role as a facilitator and central policy unit since Korea is at an early stage with regards to the maturity of internal audit. The main barrier to cooperation and coordination between the BAI and the IAUs is a lack of understanding of each other's roles. Therefore, we need to clarify each one's roles and responsibilities, and foster better communications between the BAI and the IAUs through informal as well as formal meetings.

7. Kuwait

PART I EVALUATION AND IMPROVEMENT OF THE INTERNAL AUDIT SYSTEM

1. Background

1.1 A number of control entities in Kuwait follow up the work of government departments and ministries; such as State Audit Bureau (SAB) auditors with accordance to SAB Establishment Law No.30 of the year 1964 and the Ministry of Finance controllers. There are 25 ministries and government departments that are audited by (SAB).

1.2 Financial controllers from the Ministry of Finance are distributed to all government departments to carry out such a task to assure compliance to the financial regulations and instructions. There are also recruitment auditors in civil service commission that supervise the recruitment issues in the public sector. Furthermore, some of the governmental bodies include internal audit units that perform few audit tasks and internal audit.

1.3 Details of number of IAUs and its manpower as well as number of MOF offices and its manpower are shown in Table 1 and Table 2.

Table 1. Number of IAUs and Manpower

Category	Total No. of Ministries/ Departments	No. of IAUs	No. of Staff in IAUs	No. of Ministries/ Departments Audited by SAI in Central Government
Ministries and Departments	28	17	467	25
Supplementary Body	13	10	77	13
Total	41	27	544	55

The number of IAU staff is not accurate and could be misleading; as some ministries included all the staff within the financial department (Ministry of

Electricity alone had 233 employees and Ministry of Communication (93). Other ministries (3) didn't include any numbers for their staff (such as KNG, MOAIA, and CSC).

Table 2. Number of MOF offices and Manpower

Governmental Bodies subject to MOF Control	Total Number of Ministries (Subject to MOF Control)	Number of MOF offices	Number of Staff in MOF offices
Ministries & Government Departments	28	26	88
Supplementary Body	11	11	29
Independent Bodies	12	12	31
Total	51	49	148

2. Governance

2.1 There are no clear restrictions or laws related to the establishment of internal units (IAU) in governmental bodies. However, the Council of Ministries issued Decision No.181 held on 11/11/2006 to approve recommendations submitted by the Ministry of Finance on the financial affairs systems in governmental bodies. This decision focused on taking into consideration the establishment of internal control units and on assuring the recruitment of accounting expertise in these units to review the weakness in financial departments and to prevent financial breaches in the country.

The Council of Ministries assigned the Minister of Finance to follow-up the implementation of these recommendations with the concerned entities and submits a report to the Council of Ministers in this regard. Yet, the establishment of IAUs in each governmental body is subject to the Management Decision.

2.2 Whereas the establishment of the Internal Audit Units in each governmental body is subject to the management decision, usually the internal auditors report to the Head of the audit department and the manager of financial affairs.

2.3 The Internal Audit Units are funded by the annual budget of its ministry.

2.4 Internal Audit Units do not have a formal term of reference. Instead there

are varying Internal Control procedures and instructions included within the following laws and regulations:

- SAB Establishment Law No.(30) of the year 1964.
- Fatwa and Legislation Establishment Law No.12 of the year 1960.
- Public Tender Commission Law No.37 of the year 1964.
- Resolutions, instructions, and circulations related to the Ministry of Finance budget.
- Civil Service Commission Decree-Law No.15 of the year 1979 on the civil service (recruitment and promotions) and its amendments and the decree on the civil service.
- Circulations and decisions issued by the Civil Service Commission.
- Decree-Law No.31 of the year 1978 on rules of preparing general budget, control of the implementation of such budget, and the final accounts.
- MOF issues financial circulations, periodical instructions and rules of government department's budget implementation and the budget implementation regulations — which could be considered as local Internal Audit standards — to organize the government work.
- Other internal audit procedures that are defined by each entity individually.
- Decisions and Recommendations issued by the Council of Ministries that are considered non-obligatory.

Based on the above mentioned laws and regulations, many governmental entities established internal audit units — that are often considered as a section in the financial affairs department — in compliance with the Council of Ministries recommendations and suggestions.

After considering the Ministry of Finance study on the financial affairs systems in governmental and independent budgets, which was conducted in February 2009, the Council of Ministries issued Resolution No.18. The suggested recommendations have been approved, and the Ministry of Finance was assigned to prepare a timely program regarding the implementation of recommendations with the relevant entities. As a result, a report was presented to the Council of

Ministries on what's to be implemented. Their decisions are as follows:

- Resolution No. (1181/Third A,B) was approved in the meeting (3-68/2006) held on 11/11/2006 stating the following:
 - Holding intensive training programs for the financial body elements in public and independent entities.
 - Establishing internal audit units with the assurance of experienced accountant staff recruitment to detect the weaknesses of the State financial administrations and prevent financial violations.
- Resolution No. (910/First 6, 5 and Second/2) was approved in the meeting no. 3-54/2006, held on 28-8-2006, stating the following:
 - Demand Ministries to support internal audit units in their departments and other government entities of attached budget to recruit qualified staff and provide the required training that assures the efficiency and effectiveness of performance.
 - Internal audit units prepare periodical reports on its findings, submitting them directly to their ministry undersecretary — or the official of similar rank — in attached bodies, in order to analyze the weaknesses in the work of the regulated units.
 - Review systems and roadmaps, assuring their application to practical and professional standards. Activate internal audit systems to assure the accuracy of the work according to the approved rules and regulations. Support bodies with the required qualifications and submit reports to the Board of Directors for necessary actions to be taken.

3. Structure

3.1 The internal audit function does not have sufficient independence to fulfill its responsibilities since it is often attached to the financial affairs department in the governmental bodies. Thus, makes them an extension to the executive financial department.

3.2 The organizational positions of the heads of the IAUs are often as controller

or head of department at the ministry.

3.3 The powers and responsibilities of most of the IAUs are as follows:

3.3.1 Follow up the circulations issued by the Ministry of Finance and apply them.

3.3.2 Review expenditures, registration, and supply forms, with their supported documents, before being sent to the financial controller's office of MOF.

3.3.3 Audit forms and data related to the preparation of the final account, budget, quarterly statement, and inventory budget committee drafts.

3.3.4 Audit the staff salary payment orders based on the decisions attached.

3.3.5 Participate in cash inventory that being performed each three months of the year.

3.3.6 Review contracts and tender works to ensure their compliance with the required terms and documents. This includes reviewing payments, invoices, work orders, contract deductions calculations, income taxes, advance cash, and guarantee letters.

3.3.7 Perform periodical checks on the governmental entity's stores; review its document circulation, along with preparing reports on their work in coordination with the inventory committees.

3.3.8 Review the periodical financial reports (quarterly financial reports).

In addition, some IAUs review the department operational plan work and its achievements. Also, few of the IAUs prepare periodical reports on audit findings and recommendations.

4. Standards and Review System

4.1 There are not any unified or certified internal control laws or regulations, nor are there written unified IA policies or procedures, but instead there are varying internal control procedures according to the government body.

4.2 MOF issues financial circulations, periodical instructions and budget implementation regulations — which could be considered as local Internal Audit

standards — to organize the government work.

4.3 MOF regulations and guidelines do not comply with the internationally accepted standards or with the Institute of Internal Auditors (IIA) Professional Practices Standard. Thus, IA activities of the IAU's are still in the initial stage as they are unstructured, and the environment in which the Internal Audit Unit operates does not promote an appropriate culture of good values and governance, as there isn't any written code of conduct/ethics.

4.4 There are no measures for quality assurance nor are there tools to assess its performance, but few IAUs have audit guidelines to guide the auditors in carrying out their tasks. Nevertheless, internal audit is implemented for governmental entities on their performed tasks, along with the following of procedures and instructions that are enlisted in the State of Kuwait regulations, laws, and instructions.

5. Human Resources

5.1 Top officials are required to support the internal control units in ministries and governmental departments with professional competent staff and to qualify them further to perform audit tasks efficiently.

5.2 The Internal Audit Units may have adequate staff in terms of numbers, but they do not have enough skilled staff to deliver the audit strategy.

A detailed study prepared by Ministry of Finance on financial departments and IAUs on 2009 shows that most of their staff have non-accounting specialties (such as geography, history, agriculture, marketing, and art), including the supervisory posts. For example, the number of the financial departments staff in the 25 Ministries and Government Departments subject to the study are 3719 officials, 804 of whom are university graduates, and only 22% are accounting major. In other words, most of the financial affairs departments and IAUs suffer from lack of the professionally equipped staff.

5.3 There is a clear variance in the accountant financial benefits in public entities, making the idea of searching for better benefits an ongoing idea, which will affect the stability in the state financial departments.

As a result, it is essential to recruit specialized and experienced staff in IAU through an appropriate selection process, along with arranging specialized professional and development training programs with an ongoing coaching for the IAU staff.

6. Services

6.1 The Internal Audit Units are performing Legitimacy and Accounting Audit on the entity's transactions that are subject to the control.

As for the scope of the review system in internal audit units, it differs from one governmental entity to another in accordance to the requirements and nature of work. However, it often covers auditing all the financial transactions issued by the financial affairs department, which is related to all/some of the governmental entity's activities. For example, auditing all the expenses before spending and all the revenues after collecting, making sure of their compliance with laws, regulations, and circulations. This practiced control is considered a pre-audit and it is performed before the initial of the work.

6.2 Most of the IAUs do not prepare an audit plan, where their work depends on the financial transactions that are being daily performed by the financial affairs department.

6.3 Few of the Internal Audit Units prepare periodical reports on audit findings and recommendations to send to the concerned entities (Ministry's departments - Financial Affairs Department), requiring submission of their responses by a specified date. Afterwards, the IAUs comment on the submitted entities responses.

7. Evaluation of Internal Audit functions

7.1 Constraints

7.1.1 Some governmental entities did not follow the recommendations of the Council of Ministries regarding the establishment of IAUs.

7.1.2 Weak performance of the audit units

This is due to many reasons, it could be the subordination of such audit units to the same executive financial body, or there is no separated independent audit unit for the ministry, or there are some executive sections that may perform audit beside their executive works considering the IAU as a marginal department. Furthermore, some IAUs' missions are interrelated with other departments, leading to a weak general performance.

7.1.3 Lack of independence and objectivity

Lack of independence and objectivity occurred due to attaching IAUs to the financial departments. Moreover, the work results of the IAUs are not always submitted directly to the Ministry Undersecretary to identify deficiencies and flaws in the organizational work.

7.1.4 Nonexistence of any unified or certified internal control laws or regulations, nor written unified IA policies or procedures.

There are no internal control laws or regulations, and most of the financial laws and procedures are old and not updated.

Also, the framework — that identifies the fundamentals needed for effective Internal Audit in the public sector — is not clear, and some of the IAUs do not have a sound and written job description for their work.

Furthermore, most of the IAUs have isolated audits or reviews of documents and transactions for accuracy and compliance.

7.1.5 Not complying with the Internationally Accepted Standards nor with the IIA Professional Practices Standards.

7.1.6 Poor coordination between IAUs and SAI in one hand and with all departments within the organization on the other hand.

7.1.7 Deficiency in both the specialized training programs for the current staff, and in methods of introducing the financial instructions of the control authorities (SAI & MOF) to the newly enrolled staff.

The lack of specialized professional staff qualifications is due to the lack of professional training.

7.1.8 Lack of advanced auditing automated systems

The Ministry of Finance is using the Integrated Financial System (IFS), which is a financial information system that monitors the expenses of all the governmental entities, where each entity should use the IFS in its daily financial transactions. This helps the MOF to control the entity's expenses in accordance with the approved budget.

However, this system has some limitations and cannot control most of the elements of internal auditing, where most of the work is performed manually, that requires an automated system to speed financial transactions and communication.

7.2 Ways to Improve Internal Audit

7.2.1 Oblige all public entities to establish or restructure the IAUs.

It is important that the government entities establish independent internal audit units, and to be attached directly to the minister or undersecretary to guarantee its independence. As for the existing IAUs, it should be restructured and separated from the financial affairs department.

7.2.2 SAB or MOF should take the initiative to prepare local Internal Audit Guidelines that are aligned with the international standards.

The guidelines should be converted into a legal mandate and should be approved by the parliament so as the governmental bodies are bound to follow them. Such guidelines should be complying with the Internationally Accepted Standards and with the IIA Professional Practices Standards.

Furthermore, the Parliament should approve the Conflict of Interest law in order to hold the public employees and officials accountable for their actions.

The Ministry of Finance is currently working on developing the general financial system to keep pace with the latest world developments, which should be compatible with the Internationally Accepted Standards.

7.2.3 Strengthening the performance of the audit units

IAUs should identify job requirements and work objectives based on performance standards, outcomes, and measures.

Quality assurance measures and tools should be included to assess IAUs' performance. Moreover, IAUs should prepare periodical reports on their work findings and submit such reports to the minister to address shortcomings and to provide the corrective measurements inside the organizational body.

7.2.4 Recruit specialized and experienced staff in IAU through an appropriate selection process.

Hiring experienced accountants should be considered to face this obvious weakness of the State IAUs.

7.2.5 Arrange intensive and continuous specialized professional and development training programs and ongoing coaching for the IAU staff.

PART II RELATIONSHIP BETWEEN THE SAB AND IAUs

1. Brief Description of the SAB of Kuwait

1.1 State of Kuwait Constitution in its Article No. (151) stated that:

- There shall be established by law a commission for the financial control, and its independence shall be safe guarded by law and it shall be attached to the National Assembly.
- It shall assist both government and the National Assembly in the collection of the State revenues and expenditure of funds within the limits of the budget allocations. SAB shall submit to both the government and the National Assembly an annual report on its activities and findings.

Accordingly, Law No. (30) for the year 1964 was issued regarding the establishment of the Kuwaiti SAI. The first article states that there shall be established an independent commission for the financial control which should be called the State Audit Bureau and shall be attached to the National Assembly.

SAB employs now over 700 employees; 50% of them are professional field auditors, whereas the rest are managing and maintaining other supportive activities conforming a full understructure of services such as IT, technical

support, engineering consultations in all fields, in addition to legal advisors. Those sectors assist field auditors in their work, while of course fulfilling a pre-audit routine for all major governmental contracts.

SAB audits more than a 100 different entities, varied from ministries, government authorities, 25% government owned companies in all fields, investment authorities, oil sector.

1.2 SAB Mission:

Realize effective control over public funds in entities subject to SAB control based on the best professional practices.

1.3 SAB Vision:

Sustainable Professional Excellency

1.4 SAB Core Values:

Independency, Professionalism, Sustainable Improvement and Accountability

1.5 According to SAB Law, there are two kinds of Controls:

1.5.1 The Prior Control:

The Prior Control deals with supply and public works tenders, where the value of each is not less than K.D. 100,000 shall be subject to SAB prior control.

SAB control regarding the prior audit is to make sure that the financial allocations stated in the budget are allow to enter in such commitment and contracting and that all required procedures are complied with before commitment and contracting in accordance with financial rules and regulations in this concern.

The prior audit control includes legal and financial aspects in addition to technical aspects whether they are engineering or related to computer and information systems.

1.5.2 The Post Audit deals with:

- Control over the collection of the State revenues and expenditures;
- Appointments and promotions;
- Cases of embezzlement and financial contravention;
- Investments of State funds;
- Administrative, financial and accountancy by-laws;
- Companies in which the State holds not less than 50% control;
- Control of the execution of construction projects.

This kind of control represents the regulatory control and the legitimacy. It covers the State revenues collection and the State expenditures and whether they were spent within the limits of each financial year. This control also aims to assure the adequacy of systems and procedures, which are followed to protect and safeguard public funds.

2. Cooperation and Coordination between the SAB and IAUs

There are no laws or regulations governing the relationship between internal audit unit and the SAI. The cooperation and coordination are neither formal nor regulated. It depends on the personal diligence of SAI auditors with the audit units. The SAI auditor implements internal review through the inclusion of the entities' internal control aspect in the review plan.

8. Malaysia

PART I EVALUATION AND IMPROVEMENT OF THE INTERNAL AUDIT SYSTEM

1. Introduction

1.1 The Government administration system in Malaysia comprises three tiers of government: Federal, State and Local. The powers of the federal and state governments are set out in the Federal Constitution. The Supreme Audit Institution is the National Audit Department of Malaysia (NADM) headed by the Auditor General. At the Federal level, there are 25 ministries and 101 departments audited by NADM.

1.2 In view of the importance of the Controlling Officers (Heads of ministries/departments) to discharge their responsibilities effectively in accordance with the Financial Procedure Act, 1957 and the repeatedly unfavorable comments in the Auditor General's annual reports, it has become necessary for all ministries/departments/agencies to have an independent internal audit function to assist the Controlling Officers to discharge their responsibilities as required by law and the achievement of the organization's objectives towards good governance. The objective of the IAU is to assist the Controlling Officer by systematically assessing and reporting in a disciplined manner on the effectiveness of the control and governance processes in achieving the ministries/departments' objectives. As at 2011, there are 31 IAUs established at the Federal ministries and departments comprising of 711 personnel. Details of the number of IAUs and its manpower are shown in Table 1:

Table 1. Number of IAUs and Manpower

No.	Category	No. of IAUs	No. of Staff
1	Ministries	25	642
2	Departments	6	69
	Total	31	711

2. Governance

2.1 The establishment of Internal Audit Units (IAUs) at the Federal Government level is based on the requirement of Treasury Circular No. 2 of 1979. Since then, various developments have occurred, such as the changing role of the internal audits from merely providing assurance to giving consultancy services and adding value to the organization, as well as the increased number of IAUs established. In view of these, Treasury Circular No. 9 of 2004 is issued to further strengthen the IAUs' roles and responsibilities.

2.2 The IAUs are governed by the Internal Auditor's Code of Ethics, the Public Sector Auditor's Code of Ethics, as well as the Public Sector's Code of Conduct to ensure adherence to the highest code of ethics and integrity. As for the IAU funding, it is set through the Annual Budget of the Heads of Ministries and Departments.

2.3 Basically, the IAUs are responsible to the Heads of Ministries and Departments. Each IAU has an audit charter which is prepared by the Heads of Internal Audit and approved by the Heads of ministries/departments and audit committee. The internal audit charter sets the purpose, authority, and responsibility of the internal audit function. It establishes the position of the internal audit function within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of the audit; and defines the scope of internal audit activities. The internal audit charter is reviewed periodically by the Heads of Internal Audit, Heads of ministries/departments and audit committee to ensure that the charter is relevant and applicable to current circumstances. The internal audit charter is also a Key Performance Indicator of the IAU.

2.4 In 2009, MOF issued a letter directing the establishment of Audit Committee at the Federal and State levels to assist the Controlling Officers to meet their statutory and fiduciary responsibilities especially with regards to accounting records, annual accounts and the audits. The establishment of the Audit Committee provides a forum where the internal auditors and management of the organization can discuss the audit issues and actions taken on it, management of risks and financial reporting obligations. The Audit Committee is chaired by the Chief Secretary of a ministry and the members are comprised of

at least, Deputy Chief Secretary, Chief Secretary Division/Head of the Human Resource Management, Chief Secretary Division/Head of Division, or other appropriate division heads. The Head of IAU will be the Secretary of the committee. The composition of the audit committee varies depending on the size and nature of the organization's business and activities. It is required that the Audit Committee meetings be held at least 4 times yearly and a copy of the minutes of the meeting must be submitted to the Account and Financial Management Committee. A copy of the summary audit committee report must also be submitted to MOF every quarter (i.e latest by 15 April, July, October and January the following year).

2.5 Treasury Malaysia under the MOF is entrusted to monitor and coordinate the implementation of the ministries/departments as well as the State Secretary Offices. Their tasks include issuance of general policy directives, developing auditing guidelines, providing advisory and guidance for the implementation of the IAUs, and assessing the effectiveness of the IAUs. In December 2005, Treasury Malaysia under the MOF issued the IAU Manual to assist the internal auditors to carry out their function effectively. Amongst others, the manual outlined the roles and responsibilities, Internal Audit Standards, Code of Ethics, Audit Plan, audit documentation, and reporting.

3. Structure

3.1 Basically, the IAUs are single units within each ministry/department and are headed by the director/middle management level personnel. It is the responsibility of the Heads of ministries/departments to establish the IAUs under their organizations. The Heads of the Internal Audit report functionally to the Audit Committee/Board of Directors and administratively to the Heads of ministries/departments to ensure the independence and effectiveness of the internal audit function.

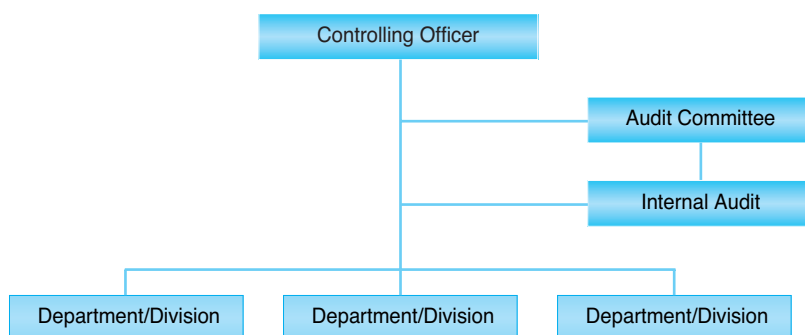
3.2 As stipulated in the MOF directives, the IAUs are responsible to conduct financial management and performance audits. Their scopes of works are as follows:

- Assess the reliability and effectiveness of the financial system and the internal controls.

- Review the level of compliance to laws, regulations, rules, and policies.
- Evaluate whether the activities are managed economically, efficiently, and effectively.
- Evaluate whether the assets and organization’s interests are protected in terms of losses, misuse of funds and fraud.
- Provide consultative and advisory services on internal controls of all systems including Information Technology system.
- Report to Controlling Officer on audit findings and take follow-up actions on matters raised.
- Prepare the Annual Audit Plan and Annual Report for approval by Controlling Officer.
- Present the Annual Report at the Financial Management and Account Meeting.
- Conduct internal audits at Federal Statutory Bodies which are under the purview of respective ministries that did not have IAU.

3.3 The sample organization charts incorporating the internal audit function in a ministry/department is shown in Figure 1.

Figure 1. Sample Organization Chart for Ministries/Departments



4. Standards and Review System

4.1 The internal audit standards are set by various parties, which include MOF, Institute of Internal Auditors Malaysia, Heads of Ministries/departments, audit committees and Heads of IAUs. In carrying out their duties, the Internal Auditors have to comply with the MOF directives and guidelines, Malaysian Approved Standards of Auditing (MASA), IIA Professional Practice Standards and International Organization of Supreme Audit Institutions (INTOSAI) Standards. The use of IIA Professional Practice Standard is in line with the INTOSAI Guidelines for Internal Control Standards for the public sector which stated that for professional guidance, internal auditors should use the professional Practices Framework of the Institute of Internal Auditors including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing and the Practice Advisories. Apart from that, the IAUs develop audit manuals and guidelines to guide the auditors in carrying out their auditing tasks.

4.2 The review system of the internal audit can be categorized into two parts: external and internal. External review is carried out by Treasury Malaysia, MOF and SAI of Malaysia. The MOF monitors and reviews the audit works of the IAUs through the submission of Audit Plan, Annual Audit Report and Quarterly Report Review by the Audit Committee. Apart from that, evaluations of the internal audit functions of 31 IAUs are conducted on rotational basis. Amongst the aspects evaluated include the audit plan, reports, monitoring, training needs, adequacy of budget and so forth. Once or twice yearly, the MOF also conducts meetings with Heads of the IAUs to review their works. Currently, they are developing the Integrated Financial Management System whereby the IAUs activities such as submission of audit plans, annual reports and audit committee reports are monitored electronically by the top management.

4.3 As for the review from SAI of Malaysia, the approaches taken are through the presence of the Head of the Internal Audit Unit from Treasury Malaysia at the NADM Management Meeting which is conducted once/twice monthly; the yearly meeting between the IAUs and SAI to discuss on the audit plans and the audit findings to ensure that there is no duplication of topics studied and to assist each other to enhance the quality of auditing. In addition, SAI of Malaysia conducted studies from time to time, for example the 2007 study on the

effectiveness of the Internal Audit functions on the aspects of job description, resources (manpower, facilities), audit planning, audit implementation, reporting, and monitoring. This year, a performance evaluation study was carried out to assess the responsiveness of the Controlling Officers to take actions on matters raised in the Auditor General Reports. Amongst the findings indicated that audit observations are not submitted to the Audit Committee, delays in the tabling of the audit observations to the Audit Committee, the reports of the Audit Committee are not tabled at the Account and Financial Management Committee.

4.4 The Heads of ministries and departments, Audit Committees, and Heads of IAUs also review the internal audit system internally. The Controlling Officer reviews the audit plan and budget as well as the audit charter before approving it. The Audit Committee reviews the audits and reports as well as make recommendations to the Controlling Officer. To improve the internal audit performance, the Head of the Internal Unit reviewed the work of individual staff and identify the scope for improvements to the work reviewed. The review also includes assessing the audit charter, strategy and plans, organization charts, staffing, resources, quality of internal audit work, documentation, compliance with the auditing guidelines and Professional Practice Framework of the IIA, and achievement of internal audit performance indicators.

5. Human Resources

5.1 In order to ensure that the internal audit functions are carried out by competent auditors, in 2009, the Government of Malaysia has agreed that internal auditors at the Federal ministries/departments are manned by the personnel from NADM through a caderization posts. Currently, there are 1,082 internal auditors at 31 ministries and departments. About 59% of 1,082 IAUs' posts have been caderized and 95% of these posts have been filled by auditors from the SAI.

5.2 The academic background and expertise required of the Internal Auditors vary depending on the size, nature and complexity of the ministries/departments operations. The Head of Internal Audit should preferably possess a professional internal audit qualification (Certified Internal Auditor) or other related professional qualification or at least a diploma/degree in accounting or auditing

or related diploma/degree or at least a related tertiary education. He or she should be a professional member of the Institute of Internal Auditors Malaysia or a member of the Malaysian Institute of Accountants. He or she must be having an appropriate number of years and level of experience in internal auditing, or at least 5 years auditing experience at the senior level and have sufficient seniority in the ministry/department to facilitate and allow for organizational independence and individual objectivity.

5.3 Internal auditors assigned to perform the audit must collectively possess adequate proficiency and technical training for the tasks required. In order to be able to undertake the full scope of audit, auditors must possess a variety of skills. It is a requirement of the Public Service Department that every civil servant must undergo at least a minimum of seven days training yearly to enhance their competence. The trainings for internal auditors are conducted by the MOF and NADM. The MOF conducts an average of 10 training sessions annually and 4 courses/workshops besides the monthly briefings. Amongst the courses conducted by the MOF are pertaining to auditing, governance, and management subjects.

5.4 SAI of Malaysia through the National Audit Academy organizes conferences, seminars and courses and normally, the internal auditors are invited to participate. The scope of training varies from the latest developments of governments' policies and initiatives to auditing, accounting, governance, management and ICT developments.

6. Services

6.1 Generally, the IAUs at the Federal Government carried out transactions review, internal controls review, financial management audits, performance audits, IT audits, investigative audits and ad hoc tasks. In terms of percentage, the services rendered vary according to size and nature of operation of ministries and departments. Generally, the IAUs carried out 50% on transactions review and financial management audits; 25% on Performance Audits; 5% on ICT audits; and 20% on investigative and follow-up audits.

6.2 In terms of planning, the Heads of the IAUs prepare the Strategic and Operational plan. These plans together with the Annual Audit Plan are submitted to the Heads of ministries/departments for approval. A copy of the Annual Audit

Plan has to be submitted to the MOF before 31st January the following year. The preparation of the audit plan is normally based on strategic priorities and instructions or requests by the Heads of Ministries/Departments. As for reporting, every IAU has to submit the audit report before 31st March the following year to the MOF. The audit report must follow the standard format issued by MOF and the content includes the causes of the issues as well as the report on actions taken by the management on issues raised in the audit report. The format of follow-up actions on audit observations is specified in the Internal Audit Manual.

7. Evaluation of Internal Audit Functions

Based on the studies conducted by NADM on the IAUs at the Federal Government level, the constraints faced by IAUs are as follows:

- i. Lack of staff with adequate skills and knowledge especially in Performance Audits and ICT Audits.
- ii. Shortage of audit staff due to posts which are approved but not filled.
- iii. Gap between the grades of the Heads of IAUs and the Heads of ministries/ departments where some of the positions of the Heads of IAUs are not compatible with their workloads.
- iv. Heavy ad hoc jobs

These constraints can be overcome by continuous training to improve the quality of audits, filling up the approved vacant posts, and reviewing the organizational structures of the IAUs from time to time.

PART II RELATIONSHIP BETWEEN THE NADM AND IAUs

1. Brief Background of the NADM

1.1 The Supreme Audit Institution of Malaysia which is also known as the National Audit Department of Malaysia (NADM), has been in existence for

more than 100 years. Its mission is to provide independent, objective, and value-added audit in the management of public resources and thereby enhancing good governance in the public sector. Legal provisions for the discharge of audit functions were made in 1957, and the office of the Auditor-General is created under Article 105 of the Federal Constitution of Malaysia. The Auditor-General's powers were strengthened and his responsibility broadened with the coming into force of the Audit Act of 1957.

1.2 The Auditor General is responsible for the audit of all Federal and State Public Authorities and such other Public Authorities and other bodies as provided by the federal law. In 2004, a government ruling was issued regarding the Audit Orders (Company Accounts) 2004 providing a mandate to the Auditor-General to carry out the audit of government companies and also companies that receive grants/loans/guarantees from the government.

1.3 The results of his examination will be reported to the King who will cause it to be laid in the legislature. To ensure the independence, special provisions regarding his appointment, remuneration and security of tenure of the Auditor General have been made in the Constitution and the Audit Act. His appointment is made by the King on the advice of the Prime Minister and after consultation with Conference of Rulers representing the 13 states of Malaysia; his remuneration which is charged on the Consolidated Fund is fixed by law and cannot be altered to his disadvantage; and his removal from office can only be like that of a judge of the Federal Court.

1.4 In the performance of his statutory duties, he is not subject to the authority of any Minister or the Executive Body. This technical independence is reinforced by the Audit Act 1957 which allows the Auditor-General to carry out the audit in such manner as he may deem fit. However, as the head of a government department, he is subject to the rules and regulations in the administration of his department as any other Head of Department.

1.5 The Audit Act 1957 grants the Auditor-General adequate powers to obtain explanations and information from persons and get access to all documents and records, including those classified as secrets, to enable him to discharge his duties. He is allowed to delegate his powers and may authorize any person he deems competent to conduct an audit on his behalf and under his direction. Where the NADM lacks certain specialized knowledge, the Auditor-General can

outsource a competent person from outside the government to assist him in carrying out such specialized audit work. This is to ensure the quality of audit is not compromised due to lack of competent staff.

2. Cooperation and Coordination between the NADM and IAUs

2.1 The importance of relationship between the IAUs and NADM has been stressed in the MOF directive and the issuance of guidelines in 2002. Internal auditors and NADM have different roles and responsibilities. Although they have separate and distinct roles and responsibilities, their objectives are similar, i.e to ensure the accountability and integrity in the usage of public monies and to encourage efficient and prudent administration. The healthy interactions between both of them, where they can rely on each other's work, avoids unnecessary duplication and produce improvement in both audit performance.

2.2 NADM issued a guideline in 2002 to enhance the relationship with the IAUs. Among the areas of cooperation outlined in the guidelines were as follows:

- i. Annual Audit Plan — In preparing the annual audit plan, NADM needs to obtain information regarding the audits which have been, will or currently conducted by IAUs, issues observed as well as follow ups taken by the audited organization. This will not only prevent duplication of work but also help to identify the areas, topics or activities which need to be audited. For the purpose of effective coordination, both parties should discuss the annual audit plan and IAUs are required to submit the annual audit plan to NADM by December every year. The IAUs annual audit report should also be submitted upon completion.
- ii. Use of Audit Guidelines — From time to time, NADM issues auditing guidelines for staff reference. IAUs are encouraged to adopt these guidelines since the guidelines are prepared based on internationally accepted auditing standards.
- iii. Internal Control Evaluation — Measuring and evaluating internal audit system are one of the main functions of IAUs. In the case where the IAUs can provide assurance that the internal controls in the organization are

adequate, NADM can rely on IAUs work and utilise it as a basis to determine the scope and level of auditing procedure.

- iv. System Development Evaluation — IAUs are in the best position to evaluate whether the new system has adequate internal controls before it is implemented. IAU evaluation can also be a basis for NADM to carry out system audits. Sharing of information on the system development will assist both parties to form an objective opinion and view.
- v. Comprehensive Audits — IAUs and NADM can cooperate in terms of selecting audit samples particularly for organization which have many branch offices and diversely located. In other words, IAU and NADM can audit the same department but using different sample. For this purpose, both parties must have a discussion during the preparation of the Audit Planning Memorandum. Through this approach, the audit results will supplement each other and the scope of coverage will be more comprehensive. It can also minimize disturbances to the organization as a result of the presence of various audit teams at a given location.
- vi. Training — NADM should assist IAUs in capacity building through provision of experienced trainers to train the internal audit staff or by seconding IAUs staff to the SAI for on-the-job training.

2.3 Several proposed mechanisms in the guidelines to foster the relationship between IAUs and NADM are as follows:

- Meeting between the Auditor General and IAUs should be held once a year.
- Quarterly meeting should be held between Heads of IAUs and senior management of SAI for coordinating auditing tasks between them. The meeting will be chaired by Deputy Auditor General (Federal) and the matters included as fixed agenda of the meeting are coordination of audit activities, training, placement, post and staff welfare.
- Besides creating close relationship with the officers at the headquarters level, IAUs need to create good working relationship with the Audit Branches at the Federal level to facilitate cooperation and collaboration.
- Guides/guidelines must be circulated to IAUs to share knowledge to enhance the effectiveness of the IAUs functions.

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- Any correspondence between IAUs and SAI must be sent through the Controlling Officer of a Ministry/Department and copied to the respective Head of IAUs.

2.4 NADM has maintained a good relationship with the IAUs through the following mechanisms:

- Formal meetings are held between the SAI and IAUs once or twice yearly. Meetings between Auditor General and IAUs are held once a year where both parties will present their annual audit plans and audit findings. In this meeting, the Auditor General will be able to share information relating to the latest developments of the SAI and IAUs.
- Conduct periodical studies on the effectiveness of IAUs on aspects such as structure, role of audit committee, staff competency, audit plan and its execution, quality of audit activities, quality of audit reports, implementation of audit recommendations, compliance to MOF directives.
- Counter check with IAUs in the selection of embassy audits venue to prevent the same embassy to be re- audited during the same year.
- Assist in the conduct of the audits such as sharing/exchanging information and providing subject matter experts on IT audits.
- Share auditing guidelines and audit reports.
- Conduct common training programs for the IAUs upon request or conduct Internal Audit Seminar for the IAUs from time to time.
- Participation in the annual public sector conference organized by NADM.

2.5 Several ways to improve the existing relationship between IAUs and NADM are as follows:

- Creation of a common data bank where all the information relating to auditing and others will be kept in this bank. Currently, NADM is using an electronic Auditing Management System (e-SPP) where the auditing tasks can be monitored through the system. All the annual audit plans of the Sectors and State Audit Branches, Audit Planning Memorandum, audit observations and auditing manual/guidelines are kept in the system. This system can be extended to the IAUs to enable them to access the documents

to help them to conduct the audits effectively.

- Regular informal meetings between the IAUs and NADM to discuss the preparation of the Audit Planning Memorandum

2.6 It is a sound policy to establish constructive working relationships with the IAUs, to foster the development of Internal Audit, to promote coordinated audit coverage and avoid duplication and to rely upon internal audit work whenever possible. However, it must be noted that internal audit works should be relied on only to the extent to which its standards and performance are considered to be satisfactory. The basis and extent of any reliance on internal audit should be clearly shown in the audit plan. The continued validity of this approach should be reviewed as work progresses and as results come forward.

9. Pakistan

PART I EVALUATION AND IMPROVEMENT OF THE INTERNAL AUDIT SYSTEM

1. Background

1.1 Overview of the Federal Government: The Federal Government of Pakistan (official name: Islamic Republic of Pakistan) comprises 44 ministries, 64 divisions and 167 attached departments. It should be noted that this 2009-10 statistics may not be accurate because many of the Federal Ministries are being devolved and their functions have been/or are under transfer to provinces. A ministry is headed by a Minister and there may be one or more (Administrative) Divisions under a ministry. A Division is headed by a Secretary (to the Government of Pakistan) and may have attached departments, sub-ordinate offices, corporations/companies, statutory bodies/authorities, autonomous bodies, institutes, etc., under it (hereinafter referred to as governmental bodies). The head of a governmental body may be known as Director General, Chairman, Managing Director, etc. The Divisions are mainly entrusted with policy formulation, guidance and overseeing functions while governmental bodies under a Division are mostly executive or service delivery organs.

1.2 Overview of the Internal Audit Units at the Federal Government Level: Only the Revenue Division/Federal Board of Revenue which is part of the Ministry of Finance has an Internal Audit Unit (IAU). Many governmental bodies have IAUs but the number of IAUs could not be ascertained.

2. Governance

2.1 Legal/Executive Mandate on the establishment of IAUs: There is no clear legal/executive mandate on the establishment of IAUs. The rules available in General Financial Rules (of the Federal Government) state that each Controlling Officer/Head of the Department must ensure that the rules regarding handling

and custody of cash are properly understood; effective system of internal checks exist for securing regularity and propriety in transactions; and satisfactory arrangement exists for systematic and proper maintenance of Accounts Books and other ancillary records. On these basis, Ministry of Finance issued further instructions (vide Office Memorandum No.F3(4)R.12/84 dated 27.02.1984, which were reiterated on 28.10.1985) that each Head of Department was required to get the accounts of his office and those of the subordinate disbursing officers, if any, inspected at least once in every financial year by a Senior Officer not connected with the accounts matters. Moreover, the results were required to be compiled in the form of an Inspection Report, to be endorsed to the Audit (SAI). [However, the same government letter clarified that the General Financial Rules prescribe a system of internal checks not internal audit.] The System of Financial Control and Budgeting 2006 provides that the Chief Finance and Accounts Officer of the ministry concerned shall conduct Internal Audit of the ministry, attached departments and sub-ordinate offices; compile an Internal Audit Report; and submit it to the Principal Accounting Officer who shall scrutinize the report and communicate to the audit his remarks and orders/actions taken thereon. The government provisions on internal checks and internal audit are complied by some ministries/departments.

2.2 Extent of Implementation: There are no government instructions for establishment of internal audit or otherwise but with the advent of modern concepts of good governance, internal audit is getting hold. Many governmental bodies existing since long have established IAUs. But the IAUs more evident in recently established governmental bodies. The internal audit practices, however, vary. The existing internal audit practices in Pakistan are explained by portraying actual working of IAUs of three different governmental bodies in following paragraphs.

2.2.1 The Internal Audit practices in Pakistan Post Office Department (PPOD): The Pakistan Post Office Department, also known as Pakistan Post, is an attached department of the Ministry of Postal Services. The Department has existed since the independence in 1947 and established an Internal Audit Cell in mid-1980s. It is headed by a Director Internal Audit, an officer of Department of the Auditor General of Pakistan, who serves in Pakistan Post. The Director enjoys a middle management level position. He is supported by 15 officers and support staff. The Cell reports to Chief Accounts Officer/Financial Advisor,

devises its own audit plans keeping in view high risk areas but mainly concentrates on receipts and expenditure. The audit plan is prepared and executed on quarterly basis. The plan execution is monitored by the Director. The IAU has an audit manual but there is no audit committee. The officers and staff have varying educational backgrounds but none have any internal audit related certification. The funding is provided within the annual budget of the Pakistan Post. The internal audit reports are seldom shared with external audit (auditors from SAI Pakistan). Internal Audit Cell coordinates between the PPOD and SAI Pakistan with reference to findings and recommendations of the external audit.

2.2.2 The Internal Audit practices in National Highway Authority (NHA): The NHA was established through an Act in 1991 as a statutory body under the Ministry of Communication. It is successor to National Highway Board (NHB) which was established in early 80s. The NHA Act was amended in 2001. The NHA has got established an Internal Audit Wing. The Wing is headed by a General Manager (Internal Audit) who enjoys a middle management level position but reports directly to the Chairman, NHA. He is supported by 32 officers and support staff. He devises his audit plan on strategic basis annually, divided for execution on quarterly basis. The execution is closely watched, and in case of need, plans are modified. The audit activity covers all activities like expenditure, revenue collection, development projects, routine maintenance, etc. The Wing issues reports on internal audit findings on quarterly basis and also issues an Annual Report. The Wing plays an active role in System Improvement. It has an internal audit manual but there is no audit committee. It regularly monitors progress and reports compliance / performance to the Chairman. The officers/staff have varying educational backgrounds but almost all of them have accounting knowledge and experience. The Wing actively coordinates with external auditors to resolve the audit findings of external audit besides sharing internal audit findings. It coordinates and monitors the compliance of the external audit recommendations as well as helps resolve many issues. The funding is provided within overall budget of the organization. The General Manager's personnel strategy has been to engage auditors/officers with varying educational backgrounds and experience given the diverse nature of functions of the organizations.

2.2.3 The Internal Audit practices in SME Bank Ltd: The SME Bank, a public

sector company, was established in 2002 under the Ministry of Finance by merging two existing financial institutions namely Regional Development Finance Corporation and Small Business Finance Corporation. The Internal Audit is established in line with prudential regulations. The bank advances small and medium loans. The Internal Audit Division conducts the Internal Audit. It is headed by a Chief Internal Auditor (CIA), who is supported by 15 auditors and supports staff. The CIA reports to the President of the Bank and to the Audit Committee. He enjoys a top management level position. The audit committee is a three members committee, who are all members of the Board but none of them is bank employee. Audit plan is prepared annually on strategic considerations, it is approved by CIA. Progress/activity reporting and compliance/monitoring are an ongoing process. President or the Audit Committee may require CIA to conduct a Special Audit. This committee also reviews the performance of the Internal Audit Division. Financial, spot and special audits are conducted. The funding is included in the annual budget of the bank. Reports are seldom shared with the External Audit. However, the Internal Audit Division plays an important role in monitoring the compliance of external audit recommendations. Almost all the members of the division have financial or management education background.

2.3 Budget: The budget of the IAU is provided within the annual budget of the organization.

2.4 Regulatory laws and standards: There are no regulatory laws or standards but many manuals refer to professional standards and practices, which IAUs endeavor to follow.

3. Structure

3.1 Organizational Position of Head of IAU & Location of IAU in the hierarchy: Most of the heads of the IAUs enjoy a middle management level position but in few cases like SME Bank and Federal Board of Revenue, they are just below Head of department or equal to board members. In small organizations, Heads of IAUs have been given a position equivalent to lower level management.

3.2 Status of IAUs: The IAUs are at par with other managerial functions of the same status.

3.3 Powers, scope and responsibilities: The IAUs have powers to plan, execute and report. They can call for any record or resource. The responsibility for corrective action and compliance rests with management. The IAUs, however, are responsible for monitoring and reporting on compliance. All organizational activities are within the scope of the internal audit. In no case, any IAU has been given executive powers. IAUs members, however, occasionally serve on committees such as inquiry committees, auction committees, recruitment committees, with the permission/consent of the Head of the IAU.

4. Standards and Review Systems

4.1 Standards, manuals, and practices: There is no professional or official body to set internal audit standards. Many internal audit manuals refer to professional standards and also provide a sort of review system. Most of the IAUs have manuals/guidelines.

4.2 Reviews: Internal reviews are common but external review is rarely heard. The SAI auditors, however, incorporate comments in their reports upon the performance of IAUs. In case of SME Bank and other such institutions, audit committees conduct reviews.

5. Human Resources

5.1 Qualifications and criteria of the Head of IAU: The requisite educational qualifications and experience varies. Most of the time, these days, a Chartered Accountant with or without CIA is sought. In government departments, many internal audit positions are manned by the officers of the Department of the Auditor General of Pakistan (DAGP) who serve on deputation basis. The Heads of the IAUs try to optimize their internal audit personnel in terms of educational qualifications/experience and like to have a mix of accountants, economists and managerial background people.

5.2 Trainings: The SAI Pakistan conducts routine trainings for its own staff as well as on request for other public sector organizations. Internal Auditors also attend workshops/ trainings arranged by Institute of Chartered Accountants of

Pakistan (ICAP) and such other professional bodies.

5.3 Incentives: There are no specific incentives for internal auditors. They are treated at par with others as far as the salaries and benefits are concerned. The SAI Pakistan, however, refunds the fee to successful candidates incurred on acquiring professional certification i.e., the Certified Internal Auditor (CIA) from Institute of Internal Auditors to its officers / staff members.

6. Services

6.1 Types of services provided by IAUs: The IAUs conduct internal audit professionally. Mostly, regulatory, compliance, spot and special audits are conducted. Occasionally, they are entrusted with inquiries and included in other committees. Pre-auditing is also entrusted in some cases.

6.2 Types of audit plans, deadlines for reports: Audit is planned on an annual basis. For convenient execution, the audit plan is divided into quarters. Smaller period plans are also in vogue. Submission of report is must after the end of the quarter and before taking up next assignment. Annual reports are prepared within three months after the end of the year.

6.3 Follow-up systems: IAUs follow up action on their findings and recommendations. They try to improve system. The compliance of previous audit is incorporated in the fresh reports of the same executive units/organs. Moreover, a quantified result is projected in annual reports.

7. Evaluation of Internal Audit Functions

7.1 Constraints The absence of legislative and regulatory framework is the major constraint. Though the awareness on impact of internal audit on good governance has been growing, mostly the recently established government bodies such as NHA, SME Bank and many others have benefited from the growing awareness. The (administrative) divisions of the ministries have yet to benefit. If legislation introduces mandatory requirement, the second major step would be the creation of positions/posts for internal auditors. This could be facilitated when the financial position of the government is better.

7.2 Ways to Improve A piece of legislation needs to be introduced which should state that the internal audit be established throughout the government. An Act of Parliament, though not mainly concerned with internal audit, having internal audit related provisions is being drafted already. It needs to be followed by incremental quantitative and qualitative improvements like optimization of staff mix, adoption of high standards of professional excellence, establishment of audit committees, external reviews and cooperation between the internal and external audits.

PART II RELATIONSHIP BETWEEN THE SAI AND IAUs

1. Brief description of SAI — Pakistan

1.1 The office of the Auditor General of Pakistan (AGP) is established under the Constitutional Provisions. The Constitution mentions the appointment, tenure, remuneration, powers and functions of the AGP. The AGP is appointed by the President of Pakistan for a fixed term. He enjoys the leadership of 700 plus core professionals. Under the Constitutional Provisions, the Auditor General of Pakistan is responsible for certifying the accounts of Federation and Provinces. He is also responsible for audit of all government bodies established or run by government. Under the Auditor General of Pakistan Ordinance 2001, he can determine the nature and extent of audit and can call for any information or records in the discharge of his duties. The AGP conducts audit function independently and objectively.

1.2 The audit reports containing significant findings / recommendations are presented to the President of Pakistan or to the Governor of the province, as the case may be, who cause them to be laid before the Parliament. The reports pertaining to Federal Government are discussed in the Public Accounts Committee (PAC) comprising members of the National Assembly (Lower House of Parliament) and those of provinces in the (provincial) PAC comprising members of the Provincial Assembly concerned.

2. Cooperation and Coordination between the AGP and IAUs

2.1 Laws/regulations governing the relationship: There are no laws or regulations governing the relationship between the SAI and the IAUs but Auditor General of Pakistan can call for any information and records. Under this provision, the external auditors demand the internal audit or inspection reports and if not provided, comment accordingly/report to Public Accounts Committee. IAUs coordinate in reporting of compliance to external audit recommendations.

2.2 Mechanism of cooperation: There is no hard and fast rule or provision for cooperation or coordination.

2.3 Rate of reliance on internal auditor's work: The external auditors review the internal audit reports but rely little in planning or executing their work. The schedules of audits are not coordinated.

2.4 Aspects of IAUs evaluated by SAI: The SAI Pakistan comments on the outputs (internal audit reports) of the IAUs. Majority of the IAUs do not share their reports, therefore, this aspect is reported to the Public Accounts Committee. Moreover, external auditors highlight risky and un-covered areas. External audit also incorporates in its reports important findings from internal audit reports.

2.5 Barriers to cooperation and coordination: There are regulatory weaknesses like no side is required by any rule, regulation or law to share plans/reports or cooperate. The IAUs coordinate/cooperate with external audit as a good practice and to resolve audit matters as soon as possible.

2.6 Ways to improve: The awareness of good governance and its relationship with audit is growing. It needs to be capitalized / strengthened with introduction of legislation and regulations which are the key to a good start. With the commitment of resources, incremental improvements could be introduced to ensure the implementation of the professional framework.

10. Russia

PART I EVALUATION AND IMPROVEMENT OF THE INTERNAL AUDIT SYSTEM

1. Background

1.1 There are three levels of government in the Russian Federation (RF): federal government (central), government of the subjects of the Russian Federation (regional), and local self-government. Executive bodies at the federal level (federal ministries, agencies, and services) and some other organizations are chief administrators of the federal budget funds of the Russian Federation. As of January 1, 2011, the total number of chief administrators of the federal budget funds of the Russian Federation was 109. All chief administrators of the federal budget funds are within the audit competence of the Supreme Audit Institution (SAI) — the Accounts Chamber of the Russian Federation.

1.2 As of January 1, 2011, the separate structural internal audit units (IAUs) were created by 26 of 109 chief administrators of the federal budget funds of the Russian Federation, which was 23.9% of the total number. In 42 chief administrators of the federal budget funds, the IAUs were part of other units of central bodies (38.5 %); in 41 chief administrators, internal audit was conducted by other structural units and by separate officials (37.6 %).

The actual number of the staff of units and the separate specialists — who were in charge of internal audit functions in the central bodies of chief administrators of the federal budget funds — ranged from 1 (Federal Service for Alcohol Market Supervision) to 36 (Federal Treasury).

In separate ministries, services, and organizations, the number of the staff of the units was the following:

Table 2. Number of MOF offices and Manpower

Chief administrator of the federal budget funds	As prescribed (number of people)	Per cent of overall number of people in central body	Actual (number of people)
1	2	3	4
Federal Treasury	37	7.6	36
Federal Customs Service	33	1.8	29
Federal Service for State Registration, Cadastre and Cartography	26	3.5	23
Federal Service for financial and budget supervision	17	4.8	12
Emergency Control Ministry of RF	16	1.9	14
General Prosecutor's Office of RF	10	0.6	10
Ministry of Economic Development of RF	9	0.4	7
Ministry of Foreign Affairs of RF	9	0.3	8
Ministry of Culture of RF	7	2.2	7
Ministry of Agriculture of RF	7	1.0	6
Ministry of Finance of RF	7	0.6	6
Ministry of Natural Resources of RF	6	1.3	5
Federal Tax Service	5	0.5	5
Ministry of Industry and Trade of RF	5	0.5	4
Ministry of Energy of RF	5	1.0	2
Ministry of Public Health and Social Development of RF	5	0.5	3
Ministry of Transport of RF	5	0.9	5
Federal Service for Alcohol Market Supervision	5	1.7	1
Ministry of Regional Affairs of RF	5	0.6	4
Ministry of Justice of RF	5	0.7	2
Ministry of Education and Science of RF	4	0.5	4
Ministry of Sports and Tourism of RF	4	1.1	3

2. Governance

2.1 In accordance with the Budget Code of the Russian Federation (Articles 158 and 269), a chief administrator of the federal budget funds exerts financial control over subordinate budgetary institutions for provision of legal, target, and efficient use of budgetary funds. Article 270 of the Budget Code of the Russian Federation provides the bodies of executive power (bodies of local administration) with the right to create units of internal audit (internal control), which carry out elaboration and control over compliance with internal standards, related to preparation and execution of the budget, preparation of budgetary reporting, and keeping of budgetary accounting, as well as organization of the execution of measures, aimed at an increase of efficiency (effectiveness and economy) of usage of budgetary funds.

At the same time, the obligatory establishment of the IAUs is not provided by budgetary legislation.

2.2 Internal auditors report as usual to the heads or deputy heads of ministries, agencies, services, and organizations. In a number of ministries and services (Federal Treasury, Ministry of Public Health and Social Development), the results of internal audit activities are submitted to the hearings of audit commissions. In the majority of cases, the audit commissions are not established. IAUs have formal terms of reference/audit charters.

2.3 The financing of internal audit (control) units is conducted as usual within the framework of the annual budget of ministries, agencies, services, and organizations and is approved by the law on the budget.

2.4 In accordance with Article 165 of the Budget Code of the Russian Federation, the Ministry of Finance of Russia is in charge of responsibilities related to regulatory and methodology support of the activities aimed at execution of state financial control by federal bodies of executive power.

In general, the control over the current situation in the development of the system of internal audit (control) is effected by:

- The Ministry of Finance (methodology, activities' requirements);
- The Accounts Chamber (annual audits within the framework of execution of the Law on the federal budget)

3. Structure

3.1 The location of IAUs in the hierarchy of bodies of executive power and the status of IAUs are explained in paragraph 1 (separate structural IAU, or a part of other units, or internal audit conducted by other structural units).

The mechanism of establishment of the IAUs is not centralized. As their establishment is not obligatory, the IAUs are established by decisions (orders, decrees) of ministries, agencies, services, and organizations.

3.2 The organizational position of the Heads of IAUs usually corresponds with the senior level of management (head or deputy head of department) or middle level of management (head or deputy head of division) of a ministry, agency, service, and organization.

3.3 The scope of internal audit includes financial activities of a ministry, agency, service, and organization (in the case of ministries, agencies, services, and organizations, «advanced» in this sphere) or financial activities of key departments.

4. Standards and Review System

4.1 The Ministry of Finance, by the Order of December 25, 2008 № 146n, approved the provision on the requirements related to conduction of the state financial control, which is the main methodology document related to execution of financial control over subordinate budgetary institutions (Articles 158 and 269 of the Budget Code of the Russian Federation – see paragraph 2).

4.2 As of January 1, 2011, 66 chief administrators of the federal budget funds had self-approved internal control (audit) standards (60.6 % of the total number).

4.3 The provision on the requirements related to conduction of the state financial control and the internal control (audit) standards are not fully in compliance with international professional standards of internal audit, as elaborated by the Institute of Internal Auditors (IIA) Standards and by the INTOSAI International Standards of Supreme Audit Institutions (ISSAI).

So, the Provision on the requirements related to conduction of the state financial

control has not established such requirements as are contained in the international standards of internal audit, as follows:

- obligation to determine goals, authorities, and responsibilities of internal audit in the internal documentation of the organization (Provision on internal audit), which should be correspondent with the international standards of internal audit;
- requirements related to organizational independence and cooperation with the audit commission;
- requirements related to external assessments of qualified and independent experts, who are not members of the organization;
- requirements related to preparation of a risk-oriented plan, which determines the priorities of internal audit in accordance with the aims of the organization; and
- requirements related to sharing of information and coordination of activities with other internal and external auditors.

4.4 The requirements related to control of audit quality in ministries, agencies, services, and organizations are explained in the Decree of the Ministry of Finance of December 25, 2008 N^o 146n. The regular reporting on the results of control activities of internal audit (control) units was introduced.

The Accounts Chamber — during the audits of execution of the federal law on the federal budget for a reporting year and during preparation of conclusions on the report on the federal budget execution for a reporting financial year — has made an analysis of indicators, which characterize the activities of internal audit (control) units since 2007. In particular, the analysis is performed according to the following indicators: the scheduled and actual number of staff of the IAUs; the existence of standards and methodologies of internal audit; the plans of audit activities; the reports on the results of audit activities; the number of audit activities conducted in a reporting year; the volume of revealed violations in the results of audit activities; the measures taken by the federal authorities of state power and by the organizations, aimed at elimination of revealed violations.

From 2011, the assessment of internal audit activities is conducted on the basis of an elaborated matrix. For the first time, the results of assessment have been

included in the conclusion of the Accounts Chamber on the report on the federal budget execution for 2010.

The assessment is made on the basis of the following indicators:

- assignment of authorities of the internal audit (control) units and of separate officials, who are in charge of internal audit;
- level of accountability;
- cooperation with the bodies of state financial audit;
- organizational structure;
- human resources potential;
- organization of audit activities;
- planning of audit activities; and
- scope of activities.

5. Human Resources

5.1 As a rule, there are no clear requirements related to certification of auditors of the internal audit services. There are general requirements relating to education in financial, economic, and legal spheres and to working experience in the stated sphere.

5.2 The professional retraining and enhancement of qualification skills of the staff of internal audit services, as well as other civil servants of the Russian Federation, should be conducted in case of necessity, but not less than once in 3 years.

5.3 In accordance with the Decree of the Ministry of Finance of December 25, 2008 N^o 146n, in order to organize and effect control activities, a subject of financial control should provide for the establishment of a system of incentives and conditions for professional development and for enhancement of qualification skills for the financial control staff. During conducting of control activities, the financial control staff is guided by the principle of professional competence, which means that the staff has the required professional knowledge

and skills, which they maintain at the expected level.

6. Services

6.1 Types of services provided by the IAUs vary among different ministries, agencies, services, and organizations. As usual, the financial audit dominates.

6.2 The plans on internal audit activities are prepared and approved in the majority of ministries, agencies, services, and organizations for a corresponding calendar year. These plans represent a list of activities (revisions, audits), which are planned to be conducted in a corresponding calendar year. The plan of audit activities, with regard to every control event, establishes the object of audit, the audited period, the sums of financing in the audited period, the form and terms of conduction of audit event, and the officers responsible for its execution.

During preparation of plans, risk assessment, as usual, is not taken into consideration.

6.3 The deadline for submission to the head of the ministry, agency, service, and organization is usually indicated. So, in accordance with the internal regulation of the Ministry of Finance, a corresponding structural department of the Ministry of Finance should present for approval to the Minister a draft Plan of audit activities for the next calendar year, not later than on November 1 of a current calendar year — in accordance with the regulation «On conduction of financial control of activities of federal state bodies and federal state unitary enterprises, their branches and representation officers subordinate to the Ministry of Finance», approved by the Decree of the Ministry of Finance of July 2, 2010 NQ 65n.

Totally in 2010, the internal audit (control) units planned and conducted 26,534 audits in 81 chief administrators of the federal budget funds. The deadline of submission of audit reports is determined by the plans on internal audit activities.

6.4 The system of conduction of the follow-up actions by the heads of ministries, agencies, services, organizations on the basis of the data, received by internal auditors and recommendations of internal audit is not functioning in full scale.

7. Evaluation of Internal Audit Functions

7.1 Constraints in functioning of Internal Audit

The main restricting factor in development of the system of internal financial control and audit in the Russian Federation is imperfection of a corresponding regulatory base. There is a lack of clear distinction of definitions between internal and external state audit, internal audit and internal financial control, as well as the link between financial control over subordinate budgetary institutions and internal control. Methodology documents related to implementation of internal financial control and internal audit have not been prepared yet. These facts put obstacles in the way of improvement of the system of state financial control in accordance with the international standards.

7.2 Ways to Improve Internal Audit

In order to increase the efficiency of internal state financial control, of internal audit, and of the system of financial control in the Russian Federation in general, it is necessary to do the following:

- to introduce amendments to the regulatory acts with regard to making clear distinction of functions and to making a scheme of cooperation for state external and internal audit;
- to elaborate, through a body of executive power, the methodology documents on conduction of internal financial control by chief administrations of budgetary funds.

PART II RELATIONSHIP BETWEEN THE SAI OF RUSSAI AND IAUs

1. Brief Description of the Accounts Chamber of the Russian Federation

1.1 The peculiarities of the mandate of the Accounts Chamber of the Russian Federation are determined by the Constitution of the Russian Federation, the

Federal Law «On the Accounts Chamber of the Russian Federation», the Budget Code of the Russian Federation, and other regulatory acts.

Article 101 of the Constitution of the Russian Federation stipulates that the Federal Assembly of the Russian Federation establishes the Accounts Chamber for execution of control over the federal budget. In accordance with the federal law «On the Accounts Chamber of the Russian Federation» and the Budget Code of the Russian Federation, the system of external financial control is integrated into the structure of budget process. This system has a continuous three-year cycle of control over the execution of the federal budget and the budgets of state extra-budgetary funds for every financial year. The implementation occurs in three consecutive stages: i) the stage of preliminary control of draft budgets for the next financial year, ii) the stage of on-going control, immediately in the course of execution of the budgets of a current financial year, and iii) the stage of follow-up control of executed budgets for a reporting financial year.

A range of control and expert and analytical events — conducted in the framework of preliminary, on-going, and follow-up control — forms an integral system of control of the Accounts Chamber over formation and execution of the budgets. It is significantly complemented by theme audits and by expert and analytical activities, conducted in accordance with the plan of work of the Accounts Chamber and in accordance with the requests of the chambers of the Federal Assembly of the Russian Federation, through applications of members of the Federation Council and deputies of the State Duma. The structure the Accounts Chamber is the “collective” type without judicial functions.

1.2 The control authorities of the Accounts Chamber extend to all state bodies and organizations in the Russian Federation, to federal extra-budgetary funds, to state corporations, and to state companies. The control authorities of the Accounts Chamber extend as well to the bodies of local self-government, enterprises, organizations, banks, insurance companies, and other financial and credit organizations — including their unions, associations, and other formations — if they receive, transfer, or use funds from the federal budget; if they use or manage federal property; and if they have tax, customs, and other allowances and benefits, provided by the federal law or by federal authorities of state power.

Other control bodies of the Russian Federation are obliged to provide assistance to the Accounts Chamber and, in accordance with its requests, to present

information on the results of conducted audits and checks. These other control bodies are: i) the control bodies of the President of the Russian Federation and of the Government of the Russian Federation; ii) the law enforcement bodies; iii) the control bodies of the subjects of the Russian Federation; iv) the Central Bank of the Russian Federation; v) the Ministry of Finance; vi) the tax bodies and other state control bodies; and vii) the bodies of intra-departmental control. During conduction of control and audit activities within its competence, the Accounts Chamber is entitled to engage in participation in the activities of state control bodies and of their representatives, and, on a contractual basis, to engage in participation in the activities of nongovernmental audit services and of separate specialists.

1.3 The Accounts Chamber conducts the following types of audits: financial audit (dominating type, which includes audit of financial statements); audit of compliance with legislation; performance audit; and strategic audit.

2. Cooperation and Coordination between the SAI and IAUs

2.1 Cooperation of the Accounts Chamber with the IAUs is conducted in the following forms:

- audit on existence, condition, and efficiency of internal financial control;
- audit of the federal budget execution; and audit of the annual budgetary reporting of chief administrators of the federal budget funds. From 2011, the assessment of the activities of the IAUs is conducted on the basis of an elaborated matrix (see paragraph 4 for more detail);
- assessment of the level of efficiency in functioning both of internal financial control and of audit in audited organizations during conduction of theme audits (in separate cases, not systematically);and
- conduction of seminars (including international ones) on the issues of internal financial control and of audit, with participation of chief administrators of the federal budget funds.

For instance, the workshop “Current Internal Control Issues: International and Russian Good Practice” was conducted on February 16, 2010, in Moscow, where

the participants were the representatives of the majority of the chief administrators of the federal budget funds of the Russian Federation and the representatives of the Supreme Audit Institutions, including members of INTOSAI and of the Institute of Internal Auditors.

2.2. Limitations in cooperation of IAUs with the SAI

Limitations in cooperation of the IAUs with the SAI are similar to the restricting factors in the development of the system of internal financial control and of audit in the Russian Federation as a whole. The main limitation is imperfection of the corresponding regulatory base (see paragraph 7 for more detail).

2.3 Ways to improve cooperation of the IAUs with the SAI are mainly connected to introduction of amendments to the regulatory acts, with regard to the clear distinction of functions and to a scheme of cooperation between state external and internal audit.

11. Saudi Arabia

PART I EVALUATION AND IMPROVEMENT OF THE INTERNAL AUDIT SYSTEM

1. Background

1.1 Saudi Arabia follows a central government system.

A state government policy does not exist in the country. There are 23 individual ministries. Moreover, there are around 130 independent governmental bodies other than ministries; each has its own Internal Audit Unit (IAU) which is overseen by the General Auditing Bureau of Saudi Arabia (GAB), the Supreme Audit Institution. Among those being audited are independent government authorities, public institutions, government universities and other government agencies.

1.2 Currently, all governmental bodies in Saudi Arabia have established IAUs. The number of employees in an IAU varies from one department to another depending on the size and scope of the work involved. Staff in an IAU usually number between ten and twenty.

2. Governance

2.1 Establishment of “IAU”: In 2004 a statute was issued requiring every government body to establish an IAU.

In 2007, a Uniform Regulation of Internal Audit System (URIAS) was issued and circulated to all government bodies in Saudi Arabia. This regulation has become a reference for all internal audit units in government agencies.

2.2 As of July 2011 all ministries and government bodies had established IAUs. The head of the internal audit unit reports to the head of the ministry or the department to maintain the unit’s independence. As regards to audit committees,

there are no audit committees in the government sector in Saudi Arabia.

2.3 The IAUs in the government sector are funded from the annual budget of their respective ministries.

2.4 URIAS is regarded the main regulation of internal audit units in the government sector, however there are some standards issued by (Saudi CPA) about internal audit to as guidelines but they are not mandatory.

3. Structure

3.1 There is an IAU in each ministry or government body in Saudi Arabia. The heads of internal audit units are senior managers.

3.2 The IAUs cover all the activities of government bodies. They provide the following service:

- Financial audit
- Performance audit
- Comprehensive audit, including reviews of functions, projects, personnel and other aspects in terms of legality and validity.

4. Standards and Review System

4.1 The Uniform Regulation of Internal Audit System (URIAS) follows professional standards such as IIA, INTOSAI and Saudi SPA internal audit standards. The URIAS is considered the legal mandate of IAUs in Saudi Arabia. It contains the minimum required procedure for internal audit practice in government sectors.

4.2 There are some procedures that ensure the quality of IAU practices, such as external audit by SAI (GAB) as it evaluates IAUs works, reports and recommendations to ensure compliance with URIAS articles; moreover SAI reviews IAU actions taken based on the findings. Moreover SAI reviews the action taken to rectify shortcomings reported in IAU findings.

5. Human Resources

5.1 Rules for recruiting the head and employees of internal audit based on URIAS are as follows:

The eligibility criteria for being a director of Internal Audit Unit include:

- Must be a Saudi national (not a foreigner).
- At least a Bachelor degree in Accounting or equivalent.
- Professional competency
- Should have experience in Internal Audit no less than 7 years.
- The Appointment, promotion and transfer of the respective unit director need to be by the consent of the head of entity.
- As for the employees of the unit, they must have experience in Internal Audit and at least a Bachelor degree or diploma in accounting or any other field required by the unit.

5.2 In terms of training, internal auditors are encouraged to obtain CIA or other professional qualifications related to internal audit. They also are given training by SAUDI CPA (SOCPA) and in the Institute of Public Administration.

6. Services

6.1 The URIAS appoints the following types of audits:

Financial audit, compliance audit, performance audit, control review and review of projects.

6.2 In terms of audit plan, each IAU has its annual plan which needs to be approved by the head of department. Risk assessments must be taken into account while preparing the annual plan.

6.3 Audit report submission and follow up process:

URIAS states that:

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- At the end of any assignment, the unit is required to prepare a report for the department where assignment was conducted; the report contains the scope of the audit, period, its findings and recommendations.
 - If the recommendations are not implemented within 30 days, IAU should assess the risks involved. If the risks are considered high, there must be appended a report to the higher authority.
 - The Director of the IAU is required to submit a quarterly report to the head of the entity, which contains:
 - All tasks that have been conducted
 - Deviations, offences and irregularities which have been observed during the period, if any.
 - All actions that have been taken to rectify the situation
 - Detailed report about the external auditors' notes and requests, and the action taken about them (e.g. SAI, Finance ministry).
 - Within a period of 90 days after completion of the year, the director has to submit an annual report about the unit to the head of the entity.

7. Evaluation of Internal Audit Functions

7.1 Constraints:

- Shortage of qualified internal auditors and auditing software in some IAUs.
- Lack of a quality control system in some departments.

7.2 Ways to Improve:

- Recruiting qualified staff
- Providing appropriate auditing software
- Providing training programs in internal audit
- Enhancing the internal control system

Part II RELATIONSHIP BETWEEN THE GAB AND IAUs

1. Brief description of the GAB

1.1 The General Auditing Bureau (GAB) is an independent body that carries out post-audits on state's revenues, expenditures, current and fixed assets and oversees the proper utilization and maintenance of all governmental resources.

1.2 Types of Audit: Financial Audit, Performance Audit, Compliance Audit (Regularity Audit) and Comprehensive Audit.

1.3 Auditees:

- All ministries, government departments and their branches
- Public Corporations
- All private establishments and companies in whose capital the government contributes or guarantees a minimum profit

1.4 Reports of GAB

GAB issues an annual report containing:

- Evaluation of the overall financial management of the state
- Any violations of rules or regulations
- The deviations in state budget implementation
- Evaluation of the performance of all governmental agencies

2. Cooperation and Coordination between the GAB and IAUs

2.1 The URIAS regulates the relationship between IAU & GAB as follows:

- GAB is entrusted with monitoring the proper implementation of the applicable regulations.

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- GAB is mandated to inspect all documents, plans, findings and reports of the IAU.
 - GAB supports IAUs with manuals, training and consulting.

2.2 Aspects of IAU evaluated by SAI:

- Establishment of IAU
- Qualification of staff
- The proper implementation of URIAS articles
- Audit activities, audit reports and follow-up process

2.3 Obstacles for Better Cooperation and Coordination

- The difference of the work scope and goals between GAB & IAU
- Lack of understanding between IAUs & SAI of each other's roles
- Data confidentiality

2.4 Ways to Improve:

- Enhancing the communication between IAUs and SAI
- Conducting joint audit projects
- Utilizing the same procedures and checklists
- Exchanging audit findings
- Holding formal structured meetings
- Exchanging audit plan and sharing training programs

12. Vietnam

PART I EVALUATION AND IMPROVEMENT OF THE INTERNAL AUDIT SYSTEM

1. Background

1.1 According to the Law on State Budget 2002, all of agencies using the State budget are responsible for controlling all revenues and expenditures and the management of State assets. To perform this task, they use Financial Affairs Department and internal inspectors as a function of managing and controlling all activities of the central office and their subsidiaries.

1.2 Moreover, the Law on State Audit 2005 regulated that agencies and organizations using the State budget have responsibilities for organizing internal audit in line with legal provisions in order to make appraisal on quality and credibility of economic and financial information; to safeguard assets and the execution of law, regulations and policies of the State and the rules and statutes of the entity. Each entity in public sector has to establish the IAU in principle, however, most of them are now still waiting for the more detailed guidance of the government on organizing and operating of IAUs. Currently, some ministries, government agencies and other bodies have established and maintained the Internal Audit Units (IAU) however, they only perform few internal audit tasks.

Table 1. Number of IAUs and Manpower

Classification	Total number of Ministries/ Agencies	Number of IAUs	Number of staff in IAU	Number of Ministries/Agencies audited by SAV
Ministries and Government Agencies	31	4	32(*)	31
Other Bodies	29	0	0	29
Total	60	4	32	60

(*) There are 4 IAUs established by Ministries and government agencies and each IAU has about 6 - 10 auditors.

2. Governance

2.1 As mentioned, the highest legal document for establishing IAUs in the government bodies is the State Audit Law issued in 2005. Article 6 of the State Audit Law regulated: “The entities that managing and using the state budget must operate internal audit in order to protect asset; evaluate the quality and the reliability of economic, financial information and assess the compliance with laws, regulations, and internal rules.”

2.2 As mentioned above, 4 out of 31 Ministries and government agencies established the IAUs and the internal audit reports must be normally submitted to the Head of the audited entities, the Head of financial agency and the Minister of audited ministry.

2.3 About operational budget, the IAU of all Government agencies do not have their own budget for operation, but their budget would normally be allocated as a part of total budget of the entity. The budget for operation of an IAU shall be upon its organization’s estimating and requesting the Government to submit to the National Assembly for decision. The management and utilization of the operational budget of IAU shall be implemented in compliance with applicable provisions of the legislation on the State budget.

2.4 There are no regulatory laws and standards which govern the internal audit functions and no audit committee in Vietnam.

3. Structure

3.1 In Vietnam, two models are applied for IAUs in government agencies as follows: centralization (the Ministry of Defense, the Ministry of Finance) and decentralization (the State Bank, the Treasury). The IAUs are normally established as a section of the Financial Affair Department, but only the IAU is set as a separated unit from the Financial Affair Department in the State Bank. IAUs attached to the Financial Affair Department of the entities make them an extension to the executive financial department, but not sufficiently independence in their operation.

3.2 The head of IAU appointed by the Minister is considered as the third

management level lower than the minister and the directors of the department.

3.3 Internal audit activities are to serve the Head of organization in checking and supervising the management and utilization of the State budget, money, and assets; contributing to thrift; fighting against corruption, losses and wastes; detecting and preventing any legal violations; enhancing efficiency in using the State budget, money and assets. The IAUs have mandates for auditing financial statements, the legal compliance, and the performance of every department and units of the entity.

4. Standards and Review System

4.1 Until now, there have been no unified internal control regulations or written unified internal audit document regulating the policies or procedures for internal audit.

4.2 To assist in maintaining the quality of internal audit activities, including impartiality and objectivity, the head of IAUs as well as the Chief Financial Officer focus on supervising and reviewing the internal audit operation. The internal quality review is often conducted by the Head of IAU or by an experienced internal auditor who is assigned by the Head of IAU rather than external reviewers. The supervision of the head of IAU generally involves in providing suitable directions or guidance at the beginning of an audit, in regularly monitoring audit progress, in ensuring the audit findings, conclusions and recommendations are adequately supported by the evidences, and in ensuring that report is accurate, objective, clear and concise (all audit reports are reviewed by the Head of IAU and Chief Financial Officer). To assist the Minister/Board in reviewing the performance of the IAU, a summarized report is prepared by the Head of IAU every six months. The content of this report approved by the Chief Financial Officer often includes the report on progress of implementing the annual work plan, the comment on the internal audit activities, the highlights and challenges in the year, the report on internal audit's overall contribution to managing the entity's risks and improving the performance of entity, and presenting the highlighted issues relating to the internal audit function.

5. Human Resources

5.1 There are about 5 - 10 auditors working full time in each IAU. They are required to have related degrees such as finance, accounting or auditing and must satisfy the following conditions: 5 years experience in finance/accounting field and have some ethical characters such as integrity, objectivity, no previous conviction.

5.2 As for training, there are some short-term courses provided for internal auditors in order to improve their professional skills.

6. Services

6.1 The IAUs provide services focused on checking transactions, especially the financial transactions and compliance with the law and other regulations.

6.2 The plans of IAUs encompass two types: annual work plan for internal audit and plan for each proposed audit.

6.2.1 Annual work plan for internal audit: A detailed annual work plan for internal audit specifies the proposed internal audit coverage for next 12 months. It sets out broad details of the audit, audit supports and non-audit activities that IAU will undertake over the period of one year and the proportion of resources that will be devoted to different types of activities that will be undertaken. The annual work plan for internal audit is prepared by the head of IAU and approved by the Minister/Board on a recommendation of the financial department. For preparing the annual work plan for internal audit, the Head of IAU often considers the following matters:

- Materiality and risks arising from the external environment;
- Any specific requests from the Minister, the Board, the Chief Executive or management;
- Importance of programs or activities;
- Significance of findings from any previous internal or external audit, particularly relevant reports and recommendations from the Government and the National Assembly; and

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- Any coverage requires supports for preparing the financial statement.

6.2.2 Plan for each proposed audit: The plan for each audit is also prepared by the head of IAUs and approved by the Minister or the Board. The audit plans specify the following main contents:

- Objectives and scope of audit;
- Types of audit;
- Audit approaches and methodology to be followed;
- List of audited departments/units;
- Resources to be used to conduct the audit; and
- Estimating duration and costs.

6.3 There is no deadline for the submission of internal audit reports, and no system in place for follow-up action on findings and recommendations of internal audit.

7. Evaluation of Internal Audit Functions

7.1 Constraints to the functioning of IAUs

There are a lot of restrictions influencing the efficiency of internal audit in governmental entities.

According to the evaluation of SAV and internal audit units, the constraints include:

- Lack of the legal documents for internal audit in governmental agencies:

The managements of entities in public sector have been aware of the need for establishing and maintaining the IAUs but most of them are now still waiting for the more detailed guidance of the government on organizing and operating of internal audit.

- Lack of the internal audit standard:

The internal audit work of IAUs in public entities is conducted in an ad hoc

manner rather than in accordance with recognized professional standards.

- Poor performance of Internal Audit Units:

This is due to attaching IAU to the same executive financial department or non-existence of a separate unit for that type of audit and due to low level of position of the head of IAU.

- Lack of professional staff:

It is noted that most of the financial affairs departments suffer an obvious lack of the specialized professional staff, not only internal auditor but also accountants and other specialized staffs.

- Poor specialized training programs:

Most entities do not have financial and accounting training programs to improve staff efficiency. In addition, most internal auditors are not sent to join the training courses of professional audit.

7.2 Ways to Improve Internal Audit

To perform the internal audit activities in effective and efficient way, the following suggestions and recommendations should be considered and applied in Vietnam as follows:

- The Government should promptly issue the legal document, such as the Decree on Internal Audit in public sector to make and help the governmental agencies establish and maintain the IAU in an effective and efficient manner;
- Oblige the governmental entities to establish independent internal audit units to be attached directly to the minister rather than to the financial department;
- Employ specialized and experienced staffs in such units;
- Establish a professional working relationship between internal auditor and the external auditor to deliver benefits to both parties; and
- Develop a separate quality assurance programme consisting of periodic internal and external reviews.

- (i) The IAUs should develop a strategic business plan which cover at least a

three-year period and be updated annually at the same time the internal audit annual work plan is prepared. This plan shall be approved by the Minister.

- (ii) Prepare specialized training programs for the internal auditors as well as the financial staffs of the government entities.

PART II RELATIONSHIP BETWEEN THE SAV AND IAUs

1. Brief Description of the State Audit Office of Vietnam

1.1 The State Audit Office of Vietnam (SAV) was established by the Government on 11th July 1994 under Decree No.70/CP and functioned in accordance with the Charter on its Organization and Operation which was promulgated under Decision No. 61/TTg dated 24th January 1995 by the Prime Minister. It is an entirely new agency in Vietnam. After its creation, SAV began to perform its many responsibilities by establishing its organizational structure, providing necessary physical infrastructure, recruiting and training staff members, and developing proper professional procedures and standards so as to undertake audit assignments required by the Government and the Prime Minister.

1.2 On 14th June 2005, the Law on State Audit was ratified by the eleventh National Assembly of the Socialist Republic of Vietnam and became effective from 1st January 2006. The Law has opened up a new chapter in SAV's development on a fresh role of being a specialized agency on examination of state finance established by the National Assembly, performing its duties independently and subject only to laws, and its function extends to auditing financial statements, auditing the compliance with laws, and auditing the performance of every agency and institutions who manages and uses state budget, funds and assets.

1.3 Acting as an official member of the International Organization of Supreme Audit Institutions (INTOSAI) and the Asian Organization of Supreme Audit Institutions (ASOSAI) since July 1996 and January 1997, respectively, SAV has participated more actively in the global cooperation. It has developed and retained extensive relations with numerous external organizations, among those,

a large number of prestigious supreme audit institutions (SAIs) and foreign agencies in the world which have signed bilateral cooperation agreements with SAV.

1.4 SAV has defined its development goals, to be met by 2015, and its vision to 2020 as “to enhance operational capability and legal effectiveness, quality and efficiency of state audits so as to make it a strong tool of the State in controlling and monitoring the management and use of state budget, money and assets; and to build up SAV a highly professional agency which will be modernized from phase to phase to a responsible and prestigious position in the field of public finance control so as to better meet requirements of the national industrialization and modernization, and in line with international practice and standards.” Under the philosophy “transparency, integrity, professionalism and brightness,” SAV is now giving its utmost efforts to becoming a responsible and renowned public finance controlling agency for the sake of sustainable and prosperous development of Vietnam.

2. Cooperation and Coordination between the SAV and IAUs

2.1 The relationship between internal audit unit and the SAV is regulated in the State Audit Law (Article 15: The State Audit Office of Vietnam (SAV) is responsible for directing and instructing on internal audit profession and operation, and uses of internal audit results of agencies and institutions using the State budget, funds and assets). However, in practice, this task of SAV is not completely performed in terms of quantity and quality. This may be because of the followings:

- There are not many agencies and institutions in public sector being the SAV’s audited bodies established its IAUs. The IAUs are established and maintained mainly in state-owned enterprises (SOEs) and a few governmental bodies.
- It depends on the personal attitude of SAI auditors and the audited units in cooperation.

2.2 In fact, throughout auditing and giving its conclusions and recommendations to the audited bodies, the SAV has directed and instructed the activities and performance of the audited bodies in general and their IAUs in

particular. By joining in internal workshops and training courses held by the audited bodies, the SAV's professional experts have exchanged their knowledge and experiences in auditing and relating information to the internal auditors of the audited bodies. In stage of planning, conducting, and reporting, the SAV's auditors have used the results of IAUs as well as their annual reports to collect information. In addition, the SAV also cooperates with IAUs in enforcing and supervising the audited entities to implement the SAV's conclusions and recommendations. In audit process, the auditors of the SAV also assess internal control systems of the audited bodies, including internal audit activities. Thus, if internal audit units work in the right manner, auditors of SAV will think that control risk could not be high. But in fact, the SAV could not evaluate IAUs' work separately; only could evaluate the whole internal control system.

2.3 Several ways to improve the existing relationship between the SAV and IAUs are as follows:

- The SAV should issue internal audit instructions complying with the international standards;
- Establishing the regime of cooperating between the SAV and IAUs in using each other audit results; and
- Exchanging audit experience between the SAV and IAUs.