Fact Sheet

NAO National Audit Office

Recent developments in government internal audit and assurance – Spring 2013

The NAO reported on the value for money of internal audit in central government in June 2012 (Box 3 overleaf). Since then, HM Treasury (the Treasury) has made some important changes to internal audit, partially in response to the report's findings, as part of the Internal Audit Transformation programme (IATP) and to support the Civil Service Reform Plan requirement to implement shared services in internal audit. The introduction of grouped internal audit services is underway and central government is adopting new internal audit standards. This factsheet provides further details on these developments.

Introduction of grouped internal audit

In 2009, HM Treasury set up the IATP to raise the profile and performance of internal audit in central government. The IATP proposed the introduction of grouped internal audit services, which, it anticipates, will give the critical mass of staff needed to deliver higher quality internal audit more efficiently. The model proposes internal audit groups, covering all government departments and their arm's-length bodies (ALBs). Each accounting officer will retain a designated head of internal audit, although this will often be shared. Each group will be led by a Group Chief Internal Auditor, responsible for resource management and professional standards.

In October 2012, Treasury's Accounting Officer requested proposals from all Permanent Secretaries for implementing the group model in their departments. Eleven core group internal audit services will be established from April 2013, which, the Treasury expects, will be fully operational by October 2013. During 2013, the Treasury plans to issue common performance measures and benchmarks, a revised quality framework and guidance for internal audit customers.

Public Sector Internal Audit Standards

From 1 April 2013, Government Internal Audit Standards (GIAS) are replaced by Public Sector Internal Audit Standards (PSIAS). PSIAS are, like GIAS, based on the Chartered Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF). The IIA standards were updated and reissued on 1 January 2013 and PSIAS incorporate the majority of the changes. PSIAS put the standards of all public sector internal audit services on a consistent basis. Previously, separate standards were set by the Relevant Internal Audit Standard Setters (HM Treasury, CIPFA, the Department of Health and the devolved administrations).

There are no changes of substance between PSIAS and GIAS. **Box 1** contains a summary of PSIAS.

Assurance Frameworks

In December 2012, the Treasury published a guide to assurance frameworks. To help optimise the value bodies get from their various sources of assurance, the guide aims to assist organisations in their mapping and coordinating of them. The guide uses the 'Three Lines of Defence' model; assurance activities are split into one of three levels, according to how they operate (**Box 2** overleaf). The guide encourages organisation-wide engagement to consider key business risks and to identify existing assurance sources, as well as any significant assurance gaps. Assurance mapping can help promote effective risk management, control and governance, because it can enable bodies to better assess whether their assurance arrangements are proportionate and balanced and identify areas where a change in approach may be needed. Assurance mapping can also help support the preparation of, and the evidence base for, the Governance Statement.

'Internal Audit in Practice' Case Studies

Timed to coincide with the publication of the NAO report on internal audit, the IIA and NAO released a set of case studies illustrating some of the key principles of effective internal auditing, taken from a range of public and private sector organisations (including British Telecom, Department for Work and Pensions, EDF, Enstar Group, Ignis Asset Management, InterContinental Hotels Group, Met Office, SABMiller, Transport for London and Travis Perkins). The case studies are grouped into the following headings:

- Applying internal audit resources

- Scope of internal audit

- Auditing projects

- The relationship with the audit committee

- Risk-based internal audit

- Evaluating internal audit.

The examples are not necessarily meant to represent best practice but are intended to showcase a range of responses to the demands placed upon internal auditors.

Further information

NAO Report: The effectiveness of internal audit in central government, **www.nao.org.uk/internal-audit-2012**

IIA / NAO Case Studies: Internal Audit In Practice, **www.iia.org.uk/media/110117/ia_case_studies_final_18_6_2012_2_.pdf**

HM Treasury: Public Sector Internal Audit Standards, **www.hm-treasury.gov.uk/psr_governance_gia_guidance.htm**

HM Treasury: Assurance Frameworks, **www.hm-treasury.gov.uk/d/psr_governance_risk_assurance_frameworks_191212.pdf**

DAO (Gen) 03/12 Public Sector Internal Audit Standards, **www.hm-treasury.gov.uk/d/dao_03_12.pdf**

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