UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

SUSTAINABLE DEVELOPMENT GOALS

eio
internal audit

Internal Audit Manual

Revision – April 2024

OFFICE OF EVALUATION AND INTERNAL OVERSIGHT
INTERNAL OVERSIGHT UNIT

INTERNAL AUDIT MANUAL

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

Vienna, April 2024

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Preface to the Internal Audit Manual update April 2024

In 2020, the Charter of the Evaluation and Internal Oversight Office was reviewed and updated to reflect the setup and key principles of the Office´s functions, and promulgated in December 2020, after its approval by the Industrial Development Board. In 2021, a new Internal Audit Policy (the Policy), was issued to outline the nature and scope of the internal audit function, its key services, processes, outputs, roles, and responsibilities, as well as the applicable methodological principles and quality assurance measures.

With the update of the Charter, and particularly the issuance of the Internal Audit Policy, there was a need to update the Internal Audit Manual of 2019 to ensure consistency and avoid any overlapping and duplication in the three documents. As a result, this version of the Audit Manual is enhanced and focuses on the internal audit processes and their implementation in practice.

The Manual's purpose is to meet the needs of auditors, audit management and clients; and should help to provide high-quality audit services, and it will provide further transparency and confidence with all stakeholders. It states the principles underlying the UNIDO internal audit function's approach and methodology to audits and advisory services, and the processes to be employed within. As stated in EIO's updated Strategy 2020-2024, the two strategic goals of increased effectiveness of EIO functions, and demonstrated added value to UNIDO, as well as sustained high quality of EIO processes and products are paramount.

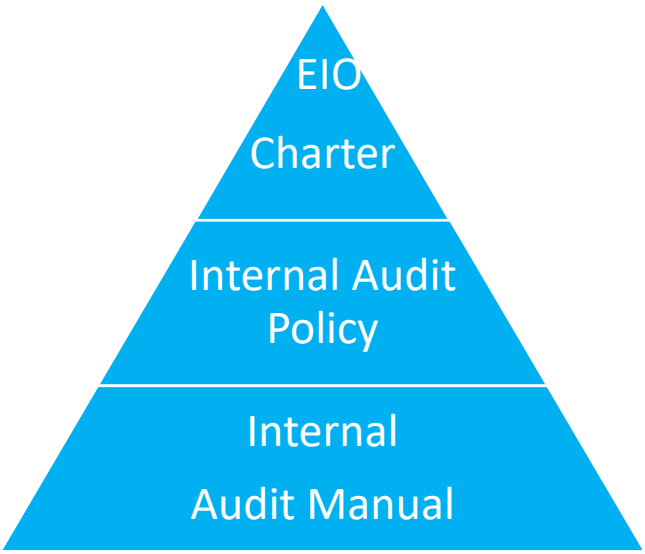
The Manual is a living document and therefore it will be updated as needed to reflect the new Global Internal Audit Standards, practices, and procedures that govern internal audit work. It should be noted that this document should serve as guidance.

UNIDO Internal Audit Team
March 2024

Section A:
Internal audit framework: Charter, Policy, and Manual

1. The internal audit function in UNIDO is regulated by three documents: the Charter of the Office of Evaluation and Internal Oversight (the Charter),[1] the Internal Audit Policy[2] and the present Internal Audit Manual, in the following relationship:

Figure 1. Hierarchy of internal audit policy documents



2. For ease of reference, a brief overview of the content of the Charter and the Policy is provided in the following two chapters (A.1 and A.2).

A.1 Charter of the Office of Evaluation and Internal Oversight

3. The Charter provides the basis for the development of the Policy and the Internal Audit Manual. The Charter defines EIO's:

(a) Mandate;

(b) Terms of appointment, accountability, authority, duties, and function of the Director of the Office;

[1] DGB/2020/11 of 11 December 2020
[2] DGB/2021/12 of 21 September 2021

(c) Independence and objectivity;

(d) Authority;

(e) Professional Standards that the Office follows, including the 'International Standards for the Professional Practice of Internal Auditing' and the Code of Ethics issued by the Institute of Internal Auditors in 20173, Inc. (IIA);

(f) Reporting;

(g) Requirements of Management and Personnel; and

(h) Relations with the External Auditor.

(i) The Charter stablishes that Director, EIO is the Chief Audit Executive (CAE).

A.2 Internal Audit Policy

4. The Internal Audit Policy is a supplementary policy under the Charter of the Office of Evaluation and Internal Oversight, with the objective to outline the nature and scope of the internal audit function; its key services, processes, outputs, roles and responsibilities; as well as the applicable methodological principles and quality assurance measures. The following is defined in the Policy:

(a) Nature and scope of the internal audit function;

(b) Reporting lines of internal audit;

(c) Professional standards;

(d) Internal audit personnel: integrity and professional conduct;

(e) Responsibilities of UNIDO personnel with regard to internal audit function; and

(f) Key features of internal audit approach and methodology (annual risk assessment and work planning process, engagement-level processes, contribution to organizational learning, quality assurance).

A.3 Purpose of the Internal Audit Manual

5. As a supplementary document under the Charter and the Policy, the Internal Audit Manual sets out the procedures and current practices that guide the conduct of internal auditing in UNIDO.

6. Further to the Charter and the Policy, this Manual describes internal audit processes including annual planning and risk assessment, as well as the performance of the assurance and advisory engagements, from planning stage, through the fieldwork, to the reporting of results, and follow-up of management action plans (MAPs). The Manual also defines the mandatory processes and key outputs at each stage of the audit process to ensure both compliance with the Standards and consistency of audit quality in all the engagements carried out.

[3] This Manual is based on the IIA Standards issued in 2017. The Manual will be updated to meeting the new Global Internal Audit Standards, becoming effective 9 January 2025, in due course.

Section B:
Annual Risk Assessment and Work Planning Process

Purpose of section

This section provides guidance on the internal audit planning process and the risk assessment methodology utilized by the internal audit function, and how it translates into specific engagements. The section covers:

(a) Description of the internal audit planning approach;

(b) Reference to the EIO risk assessment methodology, that describes the risk assessment methodology separately in detail;

(c) Scheduling of internal audit activities and allocating audit resources according to the priorities; and

(d) Work plan validation, approval, and monitoring.

B.1 Internal audit planning approach

7. The internal audit work plan, which is consistent with the EIO Strategy4, considers the Organization's strategic goals and is aligned with UNIDO's medium-term programme framework. The biennial work plan is based on a risk assessment, which is updated annually, and lists the Office's priorities for the biennium, in terms of assurance and advisory engagements.

B.1.1 Risk Assessment methodology

8. As a pivotal part of the internal audit planning process, a comprehensive risk assessment is performed every two years, with annual updates. In case of significant events which could influence the risk assessment´s results and prioritization, the risk assessment should be updated accordingly. As a result of an updated risk assessment, changes in the work plan could be initiated.

9. The methodology for conducting a risk assessment to inform the preparation of audit work plan is outlined in the EIO Risk Assessment Methodology[5], which describes the following:

(a) Overall approach to the annual risk assessment;

(b) Risk assessment methodology, including (a) defining of the audit universe; (b) risk factors and indicators; (c) considerations on the risk of fraud; (d) risk scoring; and (e) prioritization of the risk assessment outcome.

[4] Strategy 2020 – 2024 for the Office of Evaluation and Internal Oversight, last update June 2023. See at: https://intranet.unido.org/intranet/images/b/b3/2023-06-14_EIO_Strategy_2020-2024_UPDATE_2023_final.pdf
[5] EIO Risk Assessment Methodology for Internal Audit Planning, last updated 24 January 2024

10. The EIO Risk Assessment Methodology defines EIO's audit and evaluation universe, which aligns with the Organization's Secretariat Structure and the medium-term programme framework as well as with the programme and budgets, to ensure that all processes and operations of UNIDO are included in the EIO audit and evaluation universe.

11. The process of prioritization, i.e. selection of the domains and geographical entities that constitute a priority for internal audit assurance and advisory work in the next biennium, is described in the EIO Risk Assessment methodology.

B.1.2 Work plan approval and communication

12. The draft EIO internal audit work plan, prepared based on the risk assessment, and aligned with EIO's evaluation work plan, is submitted to the Independent Oversight Advisory Committee (OAC)6 for their review. After inputs and advice from the OAC, the work plan is then submitted the Director General for approval. The approved work plan is shared with Managing Directors, for their information and to further improve coordination, and facilitate audit clients' planning and preparation for the assurance services.

B.1.3 Scheduling of audits and resource allocation

13. Since internal audit function's resources are limited, as such it is critical that such resources be allocated and utilized in a fashion that results in the greatest benefit in addressing the identified organizational risks, and minimizes the audit risk. Audit risk is principally associated with the risk that the internal audit function may not appropriately address certain critical areas/processes or that the audit may not be carried out properly.

14. The assignment of the assurance and advisory engagements and other tasks to auditors is based on the nature and complexity of the audit and internal auditor's experience and special preparation (e.g. specific trainings undertaken by a team member). Factors that may be taken into consideration in allocating tasks include:

(a) The degree of risk or exposure to loss, reputational damage or negative impact on Organization's strategy or mandate (UNIDO's investment in (new) processes, approaches or activities in a country or region);

(b) The strategic nature of the process/function at Headquarters or the Organization's operations in a country (e.g. PCP, country programme);

(c) The type of engagement (Field Office audit as desk audit or involving on-site mission, process/functional audit, assurance review, coordinated or joint engagement with the evaluation function);

(d) Skills, including language, and availability of audit staff;

(e) Reduced availability of staff resources due to unanticipated audits, ad hoc advisories and other assignments;

(f) Availability of resources (e.g. funds, software applications).

15. The annual audit work plan is driven by the risks before consideration of resources required to address the risks. The resource needs and measures taken to address any gaps including the lack of special expertise through the use of external consultants, is regularly reviewed. The need for external consultants is assessed on an engagement-by-engagement

[6] UNIDO Independent Oversight Advisory Committee, Terms of reference, Board decision = IDB. 48/ Dec.5, of 25 November 2020

basis, and approval from the Chief Audit Executive (CAE), based on available financial resources, is required.

16. Once approved, the audit work plan is captured in TeamMate+ (TM+). Based on the approved work plan and resource allocation, projects are created in TM+ and staff allocated accordingly.

17. The audit plan is continuously monitored and is updated to reflect the changes in the risk profile and operating environment, balancing competing client requests in terms of timing, the availability of internal auditors, and unexpected urgent management requests. The internal audit work plan may be reviewed and updated, as needed, to reflect any new information gathered. The CAE will inform the Director General and the OAC whenever substantive changes are needed.

18. In accordance with the Charter, the CAE periodically provides the Director General, and the OAC with information on the status and results of the work plans of the Office and on the adequacy of its resources.

B.2 Coordination with other assurance providers

19. EIO will work with other internal and external providers of assurance and consulting services to ensure proper coverage and to minimize duplication of efforts. As part of the biennial work plan, assurance provided by other assurance providers will be mapped to the EIO universe to ensure that there are no gaps/duplications in the assurance plan, and assurance measures undertaken remain efficient. This mapping shall be regularly reviewed and updated.

20. For this purpose, the internal audit function will coordinate and exchange views on institutional opportunities and risks with other assurance providers including the External Auditor and evaluation function, on a continuous basis. Through its role as the focal point for the JIU, EIO will obtain information on United Nations system-wide risks that may have implications on UNIDO's operations.

21. EIO will continue to hold structured discussions with the ethics, internal controls and risk management functions and other stakeholders.

B.3 Outputs of the biennial work plan

22. This biennial work plan will result in an overview of engagements and activities planned for the first year in the biennium and the tentative list of engagements and activities for the second year in the biennium. The following types of engagements and activities might be included in the work plan (the list is not exhaustive):

(a) Process/function assurance engagements (audits) – generally covering governance, risk management and internal controls within the mature processes of the Secretariat;

(b) Process/function assurance reviews - generally provide assurance on early implementation of new Secretariat processes;

(c) Field office assurance engagements – could include only one or both components: governance of the field office and/or project related activities;

(d) Combined or joint engagements of audit and evaluation functions – could be planned and conducted as process/function or field office engagements, and also as advisories.

(e) Advisory engagements – structured advisory reviews furnishing non-binding advice relating to the Secretariat's governance, control and risk management processes; Advisory engagements are usually demand-driven (para. (d) below refers) but can also be proactively offered by EIO;

(f) Ad-hoc advisories – covers EIO's continued involvement in important strategic initiatives including, as an observer, attending meetings of Committees, task forces and/or working groups, and providing feedback and inputs to draft policies, agreements or procedures;

(g) Follow-up of agreed Management Action Plans (MAPs) – communication with clients, verification of submitted documents, and reporting.

(h) Various administrative and QAIP related activities (e.g. TM+ administration, reporting to Director General and Industrial Development Board, periodic self-assessments, support to the external assessment).

Section C:
Managing the Internal Audit Personnel

Purpose of section

This section provides details on attributes of internal audit personnel, their performance assessment, and tools used to support the work of internal audit personnel. Supplementary general rules for internal audit personnel's integrity and professional conduct are outlined in the Policy (paragraphs 13 to15).

C.1 Attributes of internal audit personnel

23. The internal audit function management will ensure that suitable criteria for requirements related to education, knowledge, skills, and experience are established when filling internal audit positions. It will also ensure that the audit team collectively possesses the right knowledge, skills, and experience to perform its responsibilities. Similarly, each internal auditor is responsible for ensuring their own competence to carry out their roles. The requirements for the team will consider EIO's strategic objectives and initiatives, including driving innovation in the internal audit function.

24. Any skills and knowledge gaps in the existing audit team will be assessed on an annual basis and incorporated in the audit function's annual training plan and EIO's training/learning needs, with appropriate training identified for each team member. Where applicable, joint training will be held. The following attributes are expected of all internal audit personnel:

Professional proficiency	Due professional care	Continuing professional development
Possess adequate knowledge, skills and competencies (refer to IIA Practice Advisory 1210-1) to: • Carry out their professional responsibilities; and • Comply with the Charter, Audit Policy, this Manual, and IIA standards. Demonstrate proficiency by obtaining appropriate professional certifications and qualifications. a	Auditors should use reasonable audit skills and judgment in performing the audit giving consideration to: • The extent of work needed to achieve the assignment's objectives; • The relative complexity, materiality, or significance of matters to which assurance procedures are applied; • The adequacy and effectiveness of governance, risk management, and control processes; • The probability of significant errors, fraud, or noncompliance; • The cost of assurance in relation to expected benefits; and • The use of technology-based audit and other data analysis techniques.	Internal audit personnel are responsible for continuing their education in order to maintain their proficiency. Internal audit management will adopt a training curriculum that sets out the framework of training activities, to ensure that personnel possess the necessary technical knowledge, skills, and competencies to be able to carry out the internal audit work.

25. Regular training of auditors will ensure that they have the necessary skills required for the internal audit work. In light of the internal audit work plan, annual training plans for the internal audit personnel will be prepared, based on a needs assessment of the audit team. The audit personnel will be involved in identifying and mapping out their training needs. Each internal audit personnel member is responsible for maintaining individual training records and keeping UNIDO human resources management informed about trainings completed.

C.2 Assessment of staff performance

26. Staff performance is assessed against agreed upon compact results in accordance with the applicable UNIDO staff Performance Appraisal System (PAS) based in SAP and the UNIDO Competency Framework relevant for the period of assessment. The internal audit compact results are derived from and aligned with the EIO Strategy, which fully aligns with the Organization's strategic objectives.

C.3 Audit team

27. The audit team is led and managed by the Chief of the internal audit function. Engagements are generally led by a designated auditor-in-charge (AIC), with the support of the second auditor or the Oversight Assistant, under the supervision of the Chief. The CAE has the overall responsibility and provides direction for every engagement.

28. The audit personnel holds weekly team meetings where updates are shared by the team members. The CAE and the Chief meet weekly, and relevant issues are discussed to ensure efficient and effective allocation of resources where necessary. Senior EIO management will also hold regular meetings (every two weeks) to take stock of performance during the period and discuss topical issues.

29. The audit team consistently tracks time utilization in TM+. The timesheets within TM+ are regularly completed by all staff. Periodically, the time spent on engagements is reviewed and discussed within the team with a view to ensuring process efficiency.

C.4 Enabling tools and systems

C.4.1 TeamMate+

30. The TM+ platform is used by the internal audit personnel to document all internal audit work performed, from planning to reporting, and to monitor implementation of recommendations. The software allows users to, amongst others: develop risk-based work plans; manage the internal audit process by organizing and linking electronic working papers and supporting documentation; raise issues and recommendations; and manage and monitor implementation of recommendations.

31. A separate SOP has been developed for the use of TeamMate+[7], which is regularly updated to reflect new developments, including new TM+ features. All internal audit tasks

[7] Standard Operating Procedures: Audit, investigation, and evaluation processes in Teammate+ (N° 23/09, of 4 May 2023).

described in this Manual that include the use of TM+ shall be done in accordance with the TM+ SOPs.

C.4.2 Other tools and systems

32. In addition to TM+, the audit work is performed using standard and specialized tools and systems:

(a) Relevant documents are stored on a shared drive (G:drive) and are readily accessible to all audit staff to facilitate the work and sharing between team members;

(b) Microsoft Office Suite, which comprises of: MS Word, MS Excel, MS PowerPoint can be used for data analyses and documenting audit work, and MS Outlook and MS Teams for communication and documenting the communication, where applicable.

(c) Team Mate Analytics, an add-on to MS Excel, which is used for data analysis and visualization in audit work.

(d) Permanent Missions Extranet for publishing the internal audit reports to Member States.

Section D:
Internal Audit Process and Methodology

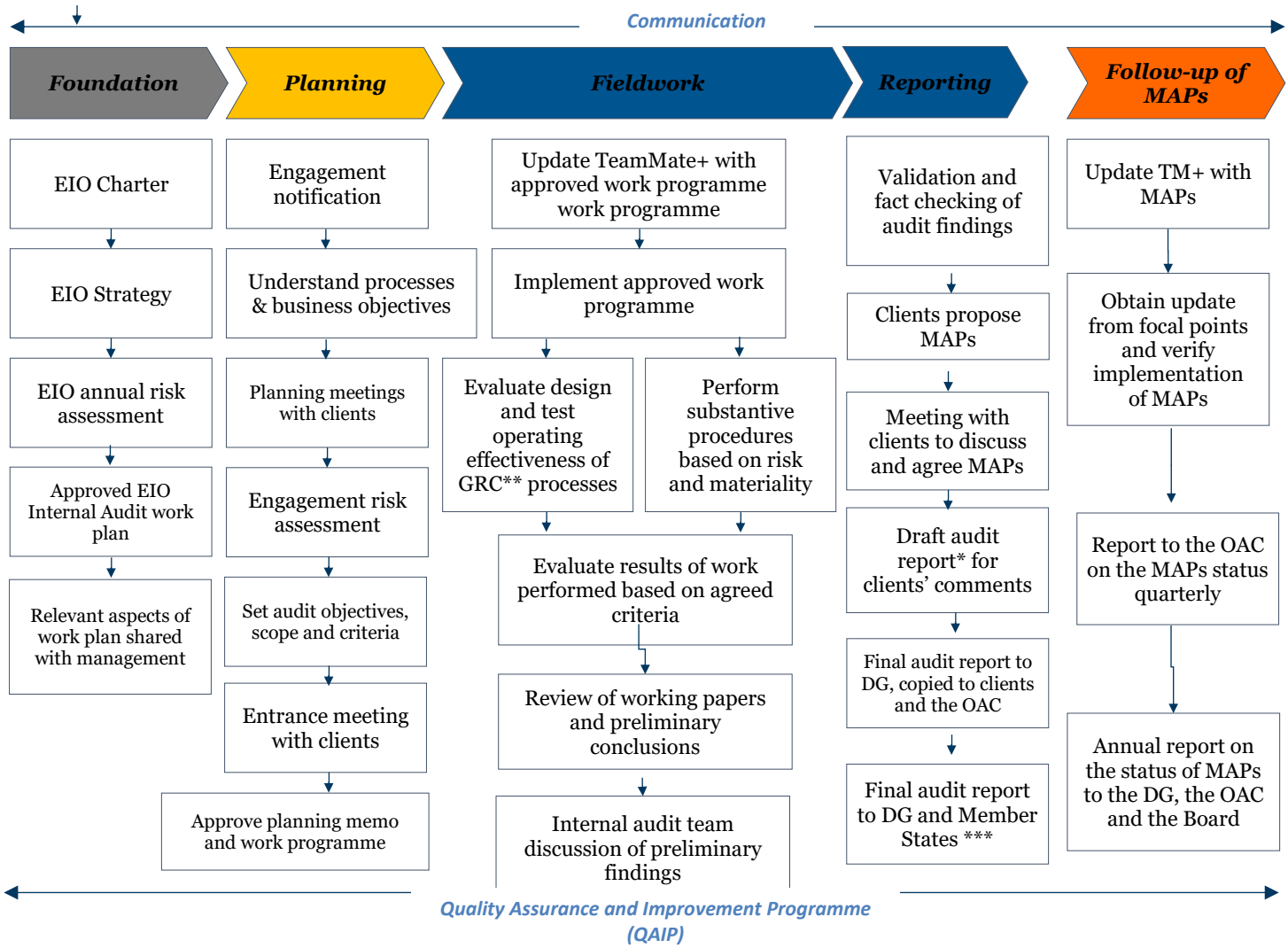
Purpose of section

The purpose of this section is to provide details on the internal audit process. Each assurance or advisory engagement generally goes through four main stages: planning, fieldwork, reporting, and follow up of management actions plans (MAPs), where agreed. Lessons learnt from each stage of the audit/advisory engagement process are used as input into EIO's strategic planning, as well as the internal audit annual risk assessment and work planning process.

D.1 Internal audit process overview

33. To ensure continuous improvement in the value that the internal audit function delivers through its assurance and advisory services, a Quality Assurance Improvement Programme (QAIP) is fully integrated into the internal audit approach and methodology. The individual roles in the process, in terms of quality assurance and accountability, are summarized in Chapter E.2.2 Ongoing monitoring. Figure 2 below provides a brief overview of the internal audit process.

Figure 2: Internal audit process in brief[8]



*The term audit report refers to all types of internal audit reports, i.e. audit, assurance review and advisory report.

**GRC – Governance, Risk Management and Internal controls

*** Abbreviated version issued to Member States

[8] The Figure 2.0 shows a model process, which is to a large extent applied in practice. However, the sequence of steps or format of documents can differ in individual engagements, in particular in case of advisory engagements.

D.2 Engagement Planning

Purpose of chapter

The IIA Performance Standard 2200 deals with engagement planning and requires that: 'internal auditors should develop and record a plan for each engagement.' This section guides the internal auditors on how to incorporate key considerations during planning, including:

(a) The objectives of the activity being reviewed and the means by which the activity controls its performance;

(b) The significant risks to the activity, its objectives, resources and operations, and the means by which the potential impact of risk is kept to an acceptable level;

(c) The adequacy and effectiveness of the activity's risk management and control systems compared to the relevant control framework or model; and

(d) The opportunity for making significant improvements to the activity's risk management and control systems.

D.2.1 Initiating the engagement

34. Each engagement is formally started by the issuance of an engagement notification signed by CAE and issued.

35. The engagement notification will indicate the subject matter for audit, and the audit timelines. It will also indicate the CAE, the Audit Supervisor, the AIC, and team members. The engagement notification should be sent to the relevant Managing Directors, Directors, Divisional or Unit Chiefs, UNIDO Representatives, and other stakeholders.

36. This notification will trigger the creation and set up of the audit project in TM+ by the AIC.

D.2.2. Obtain understanding of the entity, process, and activities

37. The AIC is responsible for gathering and analysing information to obtain a good understanding of the engagement's subject background, business objectives, inputs, outputs, the environment, and entity-level controls to ensure that the relevant engagement objectives and scope could be defined, that a proper risk assessment is performed, and the audit methodology is relevant and efficient.

38. Background information provides the engagement team with an understanding of the process or entity establishment, context, objectives, key milestones, the most important internal and external reference documents, and best practice. The background information collection includes, but it is not limited to: (a) the client's strategic plan and/or work plan; (b) guidelines, manuals and operating procedures used by the client; (c) UNIDO Financial Regulations and Rules; (d) the internal control framework; (e) progress or management

reports on the activity; (f) Organizational chart, budget and list of staff and consultants; and (g) agreements with external stakeholders (where applicable), including government counterparts and implementing entities.

39. After collecting documents and understanding the background of the engagement's subject, further information is gathered by the engagement team, to gain an understanding of the process(es), key risks, and controls. This also includes the relevant data from SAP, based on which the financial impact, materiality and trends could be understood. This phase involves interviews with key stakeholders at the Secretariat and Field Offices (where applicable) to understand the subject of the engagement better, as well as a review of background documents, relevant operational policies, previous audit and evaluation reports issued by EIO and other assurance providers including the External Auditor and the JIU. Additional useful sources of information include but is not limited to: internally available information from the Policymaking Organs (e.g. presentations, decisions/resolutions, reports), briefings to Member States, documents from informal working groups, relevant external information from other UN organizations, JIU, MOPAN, other organizational assessment by donors, and similar.

40. To demonstrate that the engagement team understands how the process operates, the key steps in the process must be documented. This process flow documentation will also facilitate a supervisory review of the working papers. The most common ways of documenting process flows are flowcharts (high-level or detailed) and narrative notes. In deciding on the extent of system documentation, the auditor should assess how much documentation is necessary to be able to identify the key controls. At the end of the analysis stage, the auditor should have documented all the key controls, indicating which ones will be relied upon, and which ones (that should be in place) are absent. Regardless of the methodology used, documenting the process flows helps provide an understanding that is critical to the next steps in engagement planning. The audit team should invest enough time in understanding and documenting the process to enable a solid assessment of process design adequacy.

D.2.3 Performing preliminary risk assessment

41. The AIC (and rest of audit team where applicable), after obtaining a good understanding of the audit subject, is responsible for conducting an activity level risk assessment to identify risks in the process that may adversely impact the achievement of the objectives of the subject area. The AIC also needs to gain a good understanding and make a high-level assessment of the adequacy and effectiveness of key controls put in place to manage the identified risks. This may include walk-through exercises and limited test checks, among others.

42. The activity-level risk assessment involves, for example, considering business process risks, understanding the control environment, assessing capacity of client staff and management, and assessing adequacy of guidelines, directives, systems, and procedures. Controls can include both manual and automated controls. Both types of controls need to be assessed to determine whether business risks are effectively managed.

43. The IIA Standards provide that "Adequate criteria are needed to evaluate controls. Internal auditors must ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with

management and/or the board." Audit criteria are reliable, objective, useful and complete standards of performance against which the achievement of control objectives can be assessed. Effective audit criteria are relevant, unambiguous, and acceptable. The AIC should set out in the audit programme the criteria to be used.

44. The AIC should ensure that a preliminary risk and controls matrix is included in the planning memorandum.

D.2.4 Consideration of fraud risk in engagement planning

45. The standards require that auditors have sufficient knowledge to evaluate the risk of fraud and how the Organization manages fraud risk (please refer to the applicable Policy on Fraud Awareness and Prevention). Auditors must consider the probability of significant errors, fraud, non-compliance, and other exposures, when developing the engagement objectives. The impact of fraud on the Organization goes beyond losing money, but can affect inter alia programme effectiveness, impact, and reputation.

46. While every fraud event will have its own peculiarities, modalities, and circumstances, auditors must look out for the existence of opportunities and the ability to commit fraud, indications of which would include the following:

(a) Weak management, inadequate risk assessment, poorly designed and implemented internal control systems and inadequate monitoring and oversight.

(b) A poor internal control framework that:

i. Fosters over-reliance on key individuals to control all activities;

ii. Does not ensure staff are properly trained and motivated to understand the substance of their work and its relative importance within the control framework;

iii. Does not ensure appropriate segregation of duties among staff;

iv. Lacks mobility of staff - staff performing the same work year after year;

v. Lacks transparency in the regulations, rules and procedures applied in the business process; and

vi. Facilitates collusion among staff.

(c) Failure to establish adequate procedures to detect fraudulent activity, particularly through regular monitoring processes.

(d) Red flags related to people working in the Organization, e.g. people who:

i. Are in positions of authority overriding existing controls because subordinates or weak controls allow them to circumvent the rules;

ii. Are living beyond their means;

iii. Have unusually close association with suppliers;

iv. Have severe personal financial stress due to debts or losses, addictions to substances or gambling; and

v. Rarely take vacations or sick time (and when they are absent, no one performs their work).

47. Auditors are encouraged to use the "Fraud Diamond" (an enhanced version of the "Fraud Triangle") to assess fraud risks. The Fraud Triangle considers: (a) "Opportunity" – the existence of weaknesses in internal controls combined with knowledge and ability to commit fraud; (b) "Pressure" – incentive or motivation to commit fraud; and (c) "Rationalization" – justification of dishonest action, which may reflect a weak "tone at the top". In addition to the three components of the "Fraud Triangle", the "Fraud Diamond" considers the person's capability to commit fraud.

D.2.5 Gender equality and empowerment of women (GEEW)

48. Gender equality and empowerment of women is addressed by the internal audit function in three ways:

49. In the planning phase of every engagement, GEEW related risks are to be considered and if appropriate, included in the scope and objectives of the engagement. The consideration and analysis of the GEEW related risks will be documented within the preliminary risk assessment and engagement planning notes. Further, where appropriate, the respective engagement work programme will contain procedures for assessment of the implementation of the relevant internal GEEW regulations.

50. EIO will yearly provide inputs into UNIDO's report on the implementation of the UN-System-wide Action Plan on Gender Equality and the Empowerment of Women (UN-SWAP), on Performance Indicator 5 - Audit.

D.2.6 Determining engagement objectives, scope, criteria, and approach

51. Once the understanding of the engagement's subject has been acquired and the assessment of risks has been completed, the auditor should be able to clearly articulate engagement objectives, scope, and overall approach:

(a) Engagement objectives: Define the engagement purpose. All planning, evidence gathering, and data evaluation begins with the engagement objectives, and the engagement ends when the CAE has enough relevant evidence to support a report which satisfies the objectives. Engagement objectives should therefore be precise and articulate and must be stated in such a way that the auditor is able to draw a conclusion with respect to each of the objectives.

(b) Engagement scope: Lists the areas, processes, activities, programmes, or systems that will be the subject of the engagement and to which the conclusions will apply. The established scope must be sufficient to achieve the objectives of the engagement. It is impractical and not cost effective to audit everything and it should therefore be evident in the scope how conducting the engagement as stated will lead to the formulation of conclusions appropriate to the engagement objectives and in support of the Organization's strategy. Consideration should be given to whether reliance can be placed on the work of other assurance providers.

(c) Engagement criteria: Provide a basis for developing observations and formulating conclusions and are reasonable and attainable standards of performance and control against which the auditor will assess the adequacy of systems and practices, the effectiveness and efficiency of operations, compliance with UNIDO regulations and rules, agreements, contracts, etc.

(d) Engagement approach: Ensures that sufficient and appropriate evidence is collected in order and in a cost-effective manner to enable the auditor to draw a conclusion with respect to each of the engagement objectives, and/or to provide an overall opinion or conclusion for the engagement, where needed. This will include identifying the most appropriate and cost-effective mix of audit tests and procedures to gather that evidence.

D.2.7 Allocating engagement resources

52. The Standards require that appropriate resources to achieve engagement objectives are determined as part of the planning process. Staffing an assurance or advisory engagement should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources. The resources required to carry out the internal audit work are also dependent on the engagement's objectives, scope, criteria, and proposed approach. Resource requirements are usually measured in terms of knowledge and skill, budget, and time. These should be documented in the engagement's planning memorandum.

(a) **Knowledge and skills:** The knowledge and skills required to perform the engagement should be ascertained based on the engagement's subject and the work to be performed. For most engagements, knowledge and skill requirements can usually be formulated in terms of typical auditor levels. For specialized engagements, it may be necessary to specify a required level of expertise and provide an indication of how that expertise might be obtained, e.g. in-house through secondment, or externally through a consultant.

(b) **Resources:** The resources shows the number of hours or days allocated to the engagement, and provides overall guidance for the performance of the engagement. The resource allocation should be prepared by the AIC and approved by the Chief before the audit starts. Revisions to the engagement budget should be documented. Changes in the scope and/or resources of an existing engagement, should be pre-approved by the Chief. In developing engagement budgets, the following should be considered:

i. The team (structure and responsibilities) and the required budget in terms of both time and money;

ii. Whether the engagement will involve travelling or performed as a desk review;

iii. Whether additional resources are needed to meet engagement deadlines;

iv. Inclusion of other costs of engagement with other assurance providers that will be involved in supporting the audit; and

v. A balance in the time budget allocated between the different phases of the engagement. (Consider having the following ratio: planning (35%), fieldwork (40%), reporting (25%)).

D.2.8 Develop engagement planning document and work programme

D.2.8.1 Engagement Planning Documents

53. The results of the planning process are documented in TM+. It reflects how, by identifying risks, formulating meaningful objectives, and establishing an appropriate audit

scope and approach, the auditor will be able to concentrate audit resources and effort on selected key risk areas that can have a significant impact on the performance and results of the entity being audited.

54. The engagement planning documents at a minimum should include:

(a) The background information: an overview of the entity, function or key processes/activities;

(b) Engagement objectives and scope (including rationale for selection of entities /functions/ processes/ activities to be reviewed);

(c) Out of scope statement: overview of entities /functions/ processes/ activities which are out of scope, together with the reasoning;

(d) The preliminary risk-control analysis (or, if completed and approved separately, inclusion of appropriate references to it);

(e) Considerations for placing reliance on other assurance providers;

(f) Materiality, testing, and sampling considerations (where applicable);

(g) The composition of the proposed team; and

(h) The engagement budget and time schedule.

55. The engagement planning documents are prepared and approved before commencement of field work and will form the basis for the development of the engagement work programme.

D.2.8.2 Engagement Work Programme

56. The Standards require that internal auditors develop engagement work programmes (EWP) that achieves the engagement objectives. The EWP will document the specific audit steps to be carried out to fulfill the engagement objectives and address the key residual risks identified in the EPM.

57. The tests and procedures should be structured and described so that it is clear to which criteria and to which audit objective each procedure is directly linked. It will also specify the testing strategies such as targeted testing and statistical sampling, where applicable, and the extent of testing or coverage. To be effective, the engagement programme should also be:

(a) A guide for conducting and co-ordinating the work to be done. It should elaborate how the engagement plan will be executed;

(b) A framework for assigning the work to the team;

(c) A framework for effectively supervising work and ensuring that the procedures planned will provide information that will allow the auditor to draw conclusions related to the objectives;

(d) A means of self-control for the internal audit staff assigned;

(e) A means for the engagement supervisor to review and compare performance with approved plans;

(f) A systematic plan for each phase of the work that can be communicated to all audit personnel concerned; and

(g) A vehicle to document the exercise of due care and compliance with professional standards and policies.

58. The EWP should be prepared prior to its implementation, and any adjustments approved promptly.

D.2.9 Advisory engagements (special considerations)

59. EIO's advisory services are usually demand-driven and arise through requests from the Director General, or senior managers. The CAE assesses the merits of the requests or the risks, and will decide whether to engage and if so with what level of resources, and towards what product (assessment, review, report, etc.). The advisory engagements accepted by CAE are added to the audit work plan, and the Director General and OAC are kept informed accordingly. In addition, the CAE may proactively offer advisory services where appropriate based on identification of emerging risks from ongoing assignments. In such cases, a proposal to management is prepared, to identify whether the interest and capacity to support such an advisory exists.

60. Full-fledged advisory engagement would follow a similar planning process as audit engagements. The objectives, scope, respective responsibilities, communication, reporting, and any other client expectation must be agreed with the relevant request or prior to engagement. The agreed terms of reference must be approved by the CAE prior to commencement of work. In the absence of terms of reference, or in addition to them, a planning document including all relevant information should be completed.

61. The work programme will vary in form and content depending upon the nature of the engagement and must, in all cases, be formally documented, approved, and communicated.

62. For ad-hoc advisories, often prompted by management's immediate needs with expectations for swift outcomes, the approach to documentation is streamlined and succinct. This approach ensures that key elements of the engagements are documented efficiently and promptly, while still maintaining the thoroughness and quality standards.

D.3 Performing the engagement: Guidance on materiality, sampling, and testing in audits

Purpose of chapter

Purpose of this chapter is to provide guidance to auditors in determining materiality, sampling, and testing strategies. However, these elements of the internal audit work require technical judgments and auditors should have adequate technical expertise in determining:

(a) Materiality as one consideration in determining the extent of testing;
(b) Specifying a minimum level of substantive tests based on the assessed risk, analytical procedures, and controls tests; and
(c) Determining the sample method and size for substantive and control testing.

So, guidance is provided in this Chapter, but the auditor should tailor this to respond to situations encountered in each audit. In exercising judgment, auditors should ensure that at a minimum, the audit work meets professional standards. Proper application of professional judgment may in some situations result in additional or more extensive audit procedures than described in this Manual.

D.3.1 Materiality

63. Materiality is based on the concept that items of little importance, which do not affect the judgment or conduct of a reasonable user, do not require the auditor to do any work on them. In general terms, a matter may be judged material if knowledge of it would be likely to influence the user of the audit report. Materiality therefore sets the level of deviation/magnitude that the auditor considers as likely to influence users of the information or affect achievement of impact of funded programmes or decision-making.

64. Materiality has both quantitative and qualitative aspects. Even though quantitatively immaterial, certain types of weaknesses can have a material impact on the Organization's objectives and should therefore be considered in an audit. The rationale for determining materiality levels should be documented in the planning memorandum and uploaded into TM+.

D.3.1.1 Quantitative materiality

65. Quantitative materiality is determined by setting a numerical value, the materiality threshold. This threshold serves as a determining factor both in the calculation of sample sizes for substantive testing and in the interpretation of the test results. The numerical value is achieved by taking a percentage of an appropriate base, which both reflect, in the auditor's judgment, the measures that users of the information are most likely to consider important.

D.3.1.2 Qualitative materiality

66. Certain types of weaknesses or irregularities or findings may not be quantified but could have a material impact on the Organization's projects/programmes and operations. Qualitative materiality includes items that may either be:

(a) *Material by nature:* The inherent nature or characteristics of an item or group of items e.g. where a matter contravenes a law or regulation regardless of the amount involved.

(b) *Material by context:* Matters will be considered material based on impact (potential/ actual), including activities that may have serious consequences.

D.3.1.3 Materiality at the different stages of the engagement

67. Materiality as a fundamental concept is applicable across the various phases of the engagement:

(a) Planning: Determining materiality limits helps the auditor to plan the engagement to ensure that material deviations are detected by audit tests and internal audit resources are employed economically, efficiently, and effectively. Auditing to a stricter (lower) materiality threshold requires more testing; however, the auditor must avoid "over-auditing" in areas that do not merit extensive work. As guidance, the bases for determining quantitative materiality for planning and reporting purposes can be total expenditure in the period under audit with materiality levels set between 0.5-1 per cent. For performance results (data), this can be 5-10 per cent.

(b) Field work: Materiality is used during field work to determine the specific items to test and evaluate the effect of exceptions. It also enables the auditor to assess the nature of information that may require revision in planned procedures. Transactions selected for testing should be 5-10 per cent of the overall materiality.

(c) Reporting: The auditor should also report all matters that he/she considers material. The auditor must apply professional judgment taking account of materiality in the context of matters on which he/she is reporting. The overall materiality on which total exceptions will be reported should be 0.5-1 per cent.

D.3.2 Audit sampling

68. Where testing the whole population is not feasible, the auditor must review a sample of the population. IIA Practice Advisory 2320-3 defines audit sampling as "the application of audit procedures to less than 100 per cent of items within a class of transactions or account balance such that all sampling units have a chance of selection". Population is defined as the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

69. Audit sampling can use either a statistical or a non-statistical approach. Statistical sampling involves determining the sample size objectively, selecting the samples from the population randomly, and evaluating the sample results mathematically, to draw a conclusion about the population. A statistical sampling approach must be used if the auditor wishes to extrapolate sample results to draw conclusions about the entire population. On the other hand, a non-statistical sampling approach relies solely on the auditor's professional judgment, and the auditor uses his or her own experience and knowledge to determine the sample size and the method for selecting the samples from the population. Non-statistical sampling (e.g. judgmental samples) may not be objective, and the results of such sampling normally pertain only to the sampled items, and cannot be mathematically extrapolated over the population.

70. Effective audit sampling procedures will increase the coverage, focus, and efficiency of audits, and statistical sampling will allow the auditor to provide assurance on processes that impact the Organization's achievement of its goals and objectives.

71. The auditor is expected to design and select an audit sample, perform audit procedures, and evaluate sample results to obtain sufficient, reliable, relevant, and useful audit evidence to achieve the engagement's objectives. The size and structure of an audit sample will depend on the specific audit objectives, the nature of the population and the sampling and selection methods.

72. The decision to determine sample sizes judgmentally or statistically will depend on audit objectives:

(a) Statistical or probability sampling allows the auditor to stipulate, with a given level of confidence, the condition of a large population by reviewing only a percentage of the total items. Several sampling techniques are available to the auditor.

(b) Judgment sampling - is used when it is not essential to have a precise determination of the probable condition of the universe, or where it is not possible, practical, or necessary to use statistical sampling.

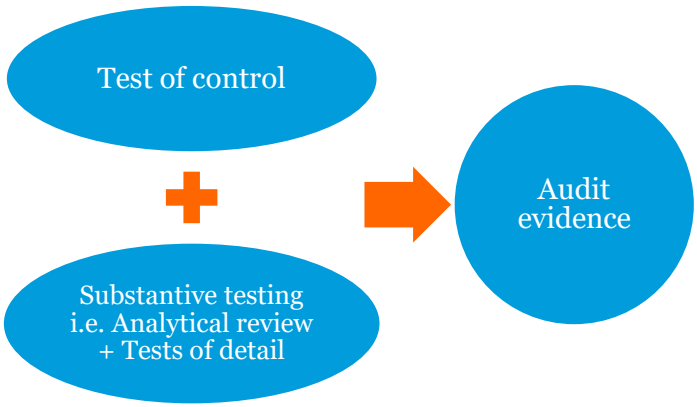
(c) Attribute sampling is used when the auditor has identified the expected frequency or occurrence of an event.

(d) Variable sampling is used when the auditor samples for values in a population which vary from item to item.

D.3.3 Testing strategies

73. Testing implies the evaluation or measurement of transactions or processes to determine its qualities or characteristics. As a profession, auditors are usually good at modifying procedures to collect additional evidence when risks are high, but not very good at modifying and eliminating procedures and related documentation when risks are low. This section helps the auditor identify the optimal testing strategy that will help them collect sufficient evidence at minimal cost as reflected in the Figure 3 below.

Figure 3. Selection of testing strategy



D.3.3.1 Test of control

74. Test of control assesses the adequacy and effectiveness of specific controls. This gives the auditor reasonable assurance that the control system as perceived at the planning stage is operational and the auditor can place reliance on it.

D.3.3.2 Substantive testing

75. With substantive testing, evidence is gathered to evaluate the integrity of individual transactions, processes, data, and other information. If the internal control is effective, then the auditor will use more test of controls and less substantive tests and vice versa. Auditors perform substantive tests when control testing (compliance test) indicates that there is no control or the presence of weak controls. There are two main types of substantive testing performed by internal auditors. These are substantive analytical review, and test of details. Substantive procedures should be designed during the planning phase in response to the related risk assessment.

76. Analytical procedures help to conduct a more economic, efficient, and effective audit. They consist of studying plausible relationships between both financial and non-financial data, whether within the same period and entity, and/or from different periods and entities. Such procedures are more helpful in validating reliability than compliance. It helps in analysing relationships for consistency with each other and with the auditor's knowledge of the audit client or predict values which may be compared to actual values. It also includes the review of identified fluctuations and relationships that are inconsistent with other information or deviate significantly from predicted values.

77. Analytical procedures are more reliable in a strong control environment and because of this may not be applicable in country audits. Various methods may be used when performing analytical procedures. These range from simple comparisons to complex analyses using advanced statistical techniques, for which appropriate computer software may be necessary.

78. There are four main steps to be performed under analytical procedures (if determined as the most effective approach for an entity or audit area):

(a) Determine expectation: The auditor should determine what the expected outcome of the test should be. This requires the use of available data and reliability of the data should be assessed and documented (e.g. published data by the World Bank and United Nations agencies are generally reliable). This may be an absolute amount or a defined range.

(b) Determine the acceptable/tolerable difference/range: The auditor determines the reasonable deviations from the expected value or range. This should be based on professional judgement and industry practice where applicable.

(c) Determine the actual value or range: The auditor determines the actual value based on existing information and compare it to the expected amount. Where the variance is within the tolerable value or range, the auditor may decide no further work is required.

(d) Follow up on variances: Where the variance exceeds the tolerable deviation, the auditor follows up on the variances with management. All explanations received from management should be corroborated.

79. Analytical procedures can be used at the planning and execution phases of the audit. It is used as part of the risk assessment procedures, to identify areas of potential risk and help design further audit procedures. It can also be used as part of the substantive procedures when their use can be more efficient and provide corroboration as part of the audit.

80. Test of detail: Substantive test of details is used where analytical procedures cannot provide conclusive audit evidence. The test of details includes computation, re-performance, examination, inspection, enquiry and confirmation, and observation. In terms of the extent of testing, the auditors should take into consideration whether:

(a) Examining selected transactions confirms the initial opinion on the systems of risk management and internal control. Samples are selected and examined to see whether the results coincide with the initial audit opinion. The selection should be informed by the identified risks as well as the qualitative and quantitative materiality levels.

(b) The risk of any losses or deficiencies should be quantified as much as possible. The quantification may not be in monetary terms, but percentage or number/frequency of exceptions noted. Quantification makes audit findings more credible.

81. In general, analytical procedures provide a warning that something appears to be wrong, rather than providing positive, persuasive evidence of what is wrong, and thus on their own do not normally provide sufficient, relevant and reliable audit evidence. Therefore, the auditor should design and perform some substantive procedures (test of details) for each audit objective. In all areas requiring test of details, EIO/IOU seeks to cover at least 15 per cent (in value) of the audit. The extent may be reduced based on the level of assurance obtained from controls and analytical review procedures.

D.3.4 Working papers

82. The documentation and review of working papers will follow these general guidelines:

(a) The preparer will document the work done. This could be an oversight assistant/auditor/ consultant, depending on the engagement or specific work programme step; the preparer will upload the work papers and supporting documents into TM+.

(b) The AIC is responsible for uploading the work done by team members who do not have access to TM+ (consultants).

(c) A senior team member (i.e. senior to the “preparer”) will be charged with reviewing work done.

(d) The AIC will cross-reference the final audit report to the working papers in TM+.

D.3.4.1 Importance of working papers

83. Working papers provide supporting documentation for the entire engagement. They provide a demonstrable link between reports issued and the work performed; they also support the findings, conclusions, and recommendations. Working papers can include text, spreadsheet and presentation documents, photocopied material, computer screen shots,

e-mails, photographs, system data extraction programmes, and data downloads. Working papers are important because they:

(a) Justify and provide proof of work conducted;

(b) Help auditors respond to questions about coverage or results;

(c) Document reasons for removing observations and/or recommendations that were included in earlier versions of reports;

(d) Facilitate supervisory quality assurance reviews as well as external practice inspections; and

(e) Provide supporting evidence when external auditors or other reviewers need to rely on the work of internal audit.

D.3.4.2 Documentation standards

84. Auditors should maintain working papers in TM+. For working papers to be considered as being adequate, they must:

(a) Be a set of stand-alone documents from which the reviewer will be able to identify the actions taken by the auditor(s) to satisfy the objectives of the detailed work programme and prepare the final audit report. The reviewer should be able to:

i. Clearly see the work carried out, including the nature, timing, and extent of the audit procedures performed;

ii. Understand the source, reason, and conclusions of the work paper;

iii. Reach the same conclusion as the person doing the work;

iv. Have representative and sufficient samples to support a conclusion; and

v. Locate all the items needed to retest samples.

(b) Contain a clear audit trail. Specifics about what was tested and reviewed need to be in the working papers and contain evidence to support report findings. All documents tested do not need to be in the working papers, as long as they can be retrieved later.

(c) Be properly cross-referenced. Cross-references should stand out clearly and provide direct and prompt access to trace conclusions back to the original audit tests and the evidence gathered and vice versa.

(d) Be signed by the preparer and the reviewer (digital signature in TM+ or indicating the date and initials of preparer and reviewer in the respective work paper) in line with quality assurance standards:

i. Be created as the audit progresses, not at the end;

ii. Have all matters “closed”, i.e. not include any open items or “to do lists” that are not resolved; and

iii. Have sufficient and compelling evidence to support engagement conclusions.

85. Because the results of several audit tests will be summarized to form a conclusion with respect to one or more criteria or objectives, the results of each audit test and the evidence gathered should be documented to ensure that the following information is evident:

(a) The engagement objective and criterion to which the test is linked;

(b) The sources of information used to design the test;

(c) The means by which the test was conducted;

(d) The test results and their analysis; and

(e) The conclusions drawn and the recommendations made.

D.3.4.3 Review of working papers

86. An important part of the internal audit function's quality control programme is a timely and thorough review of working papers. All working papers will be independently reviewed to ensure that there is sufficient evidence to support conclusions, document the extent of the work performed, ensure that all engagement objectives have been met, as well as substantiate compliance with applicable auditing standards. Working papers should contain documented evidence of supervisory review (i.e. review of the working papers by at least one more senior member of the audit function).

D.3.4.4 Maintenance of engagement documentation

87. As far as possible, the audit team should maintain electronic supporting documentation to ease document retrieval and referencing. Supporting documentation directly linked to reported findings should be maintained in TM+. All hardcopy documents should be properly filed in the relevant engagement file.

88. The internal audit function will retain ownership of all working papers including those generated by consultants. The working paper files should be appropriately secured, and access limited only to authorized personnel. Any requests for access from members outside internal audit personnel should be subject to the approval of the CAE.

89. Engagement documentation will be maintained in line with internal audit's Documents Storage and Retention Internal Instruction[9].

D.3.5 Collecting and analysing audit evidence

90. Internal auditors should ensure that sufficient evidence is obtained to support their findings and to be of any use, this evidence must be reliable, i.e. the information should be accurate, without bias, and if possible, produced by a third party or obtained directly by the auditor.

D.3.5.1 Compelling evidence

91. Audit evidence is the information collected, analysed, and evaluated by the auditor to support a finding or conclusion. The decisions on which type of evidence to seek and on how much evidence is enough requires professional judgment. To support the exercise of such judgment, knowledge of the concepts' underlying evidence is necessary. These include the below.

92. Practice Advisory 2310-1 underpins the need for good information to support the audit process and states that:

[9] Internal EIO/IOU Instruction: Document Storage and Retention Policy, No 22/04

(a) Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Evidence is sufficient if a reasonably informed unbiased person would agree with the auditor's findings and conclusions, i.e.:

i. The auditor is seeking reasonable, but not absolute assurance and conclusions (i.e. evidence does not have to prove the position beyond any question, but it must clearly and convincingly outweigh opposing evidence);

ii. Incomplete data may result in the inability to reach reasonable conclusions (e.g. documents may be lost or deliberately concealed, or the auditee may be unaware of the existence of key documents);

iii. Examination of extensive evidence may be uneconomical, inefficient, and ineffective (i.e. since the weight of individual pieces of evidence determines their collective quality, a few items of highly weighted evidence may be more persuasive than many items of less convincing evidence); and

iv. Evidence shall be reasonably representative of the population being reviewed or addressed (i.e. the selection of items for examination should be the result of objective, acceptable sampling methods).

(b) Competent information is reliable and best attainable using appropriate engagement techniques. When considering the reliability of evidence, the following factors should be considered:

i. Evidence obtained from a credible independent source provides greater assurance of reliability than evidence secured from the auditee;

ii. Evidence obtained by auditors through physical examination, observation, computation, and inspection is more reliable that evidence obtained indirectly;

iii. Documentary evidence is usually considered more reliable than oral evidence;

iv. Reliability of evidence increases when it is confirmed by another source; and

v. Statements made by audit clients are more reliable when they are confirmed in writing.

(c) Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement.

(d) Useful information helps the Organization meet its goals.

D.3.5.2 Methods of collecting evidence

93. Audit evidence can be collected using a variety of tools and techniques. Auditors should consider the most appropriate, as well as the most practical and cost-efficient, method for collecting relevant information. These include:

(a) Interviews: They define the issues, furnish evidence to support findings, and clarify positions between auditors and auditees on engagement findings and observations. Interviews can also be used to solicit the opinions and experiences of stakeholders. Adequate preparation and good skills are needed to use interviews effectively in building or confirming audit evidence.

(b) Audit tests: Testing implies placing selected activities or transactions on trial to reveal inherent qualities or characteristics. Audit tests are developed and conducted for either compliance, i.e. to assess the adequacy and effectiveness of controls, or

substantive verification purposes, i.e. as a detailed examination of selected transactions.

(c) Surveys are structured approaches to gathering information on a defined set of common factors from a large population. The key element in any survey is the existence of a structured, tested questionnaire, regardless of whether the survey is administered in person, by telephone, on the Internet, or by mail.

(d) Inspection consists of confirming the existence or status of records, documents, or physical assets. This provides highly reliable evidence of the existence or condition of materials.

(e) Flow charts are graphic representations of a process or system and provide a means for analysing complex operations. A system flow chart would provide an overall view of the inputs, processes, and outputs while a document flow chart provides more detail and therefore would assist in identifying value added activities and critical controls.

(f) Observation entails looking at a process or procedure being conducted by auditee staff. Many service transactions and internal control routines can only be evaluated by seeing the auditee perform them. Whenever possible, two or more auditors should be present to make observations in order to provide additional support to the observations.

(g) Confirmation involves a request, usually provided in writing, seeking corroboration of information obtained from the auditee's records or other less reliable sources.

(h) Analysis consists of examining information obtained and using it to corroborate other findings or to compare auditee execution against performance indicators and policies, past operations, similar operations in other organizations, and legislation.

D.3.5.3 Validating the findings from the evidence collected

94. The engagement team should engage continuously with the operational personnel of audited entities and with each other to obtain clarification on matters arising. Open and timely communication during the engagement will also help reduce the tension that auditees will naturally feel when their work is subject to external scrutiny. Progress reporting helps:

(a) To check the validity of engagement results and conclusions before they become formally reported;

(b) To alert auditees to matters they might need to address immediately or to changes in audit scope;

(c) To offer an opportunity for auditees to clarify or provide more information on points raised by the auditor in a timely fashion; and

(d) To help build a relationship with the auditee that facilitates the gathering of information helpful to the audit.

95. Notwithstanding the above, auditors should use judgment as to the amount of detail they might disclose to auditees during the course of the engagement. There may be cases, such as red flags requiring investigation of potential fraud or significant non-compliance, or where communication with auditees may need to be limited or managed so that

confidentiality is maintained and audit evidence preserved, and the integrity of an investigation process is maintained.

96. The AIC should provide regular updates on the progress of the engagement. The frequency of progress updates should be agreed with the Chief. The AIC will use professional judgment in deciding whether to escalate emerging issues immediately or include in the regular updates to the Chief.

D.3.5.4 Root cause analysis

97. Root cause analysis is defined as the identification of why an issue occurred (versus only identifying or reporting on the issue itself). In this context, an issue is defined as a problem, error, instance of non-compliance, or missed opportunity. Examples of audit issues include: ineffective operations, misuse of resources, inadequate safeguarding of assets, and exceeding the delegated authority.

98. Root cause analysis benefits the Organization by identifying the underlying cause(s) of an issue. This approach provides a long-term perspective for the improvement of business processes and internal controls. Without the performance of an effective root cause analysis and the appropriate remediation activities, an issue may have a higher probability to recur. It is important to recognize that there are often multiple, related or unrelated, causes of an issue.

99. In certain circumstances, root cause analysis may be as simple as asking "five whys." For example: The Procurement Division received a limited number of responses to a solicitation exercise.

(a) Why? *A limited number of vendors was invited to participate in the solicitation.*

(b) Why? *Only few new vendors were added to the vendor roster in the recent period.*

(c) Why? *Vendor registration process was lengthy and cumbersome.*

(d) Why? *Management did not establish targets and timelines for the vendor registration process and did not monitor the process against these timelines.*

100. By the fifth "why," the auditor should have identified, or be close to identifying, the true root cause. More complex issues, however, may require a greater investment of resources and more rigorous analysis. The resources spent on root cause analysis should be commensurate with the impact of the issue or potential future issues and risks. Auditors may not have all the skill sets necessary to conduct the specific root cause analysis under consideration. When the anticipated time commitment or necessary skill levels exceed what is available within the internal audit activity, internal audit function may request management to conduct a root cause analysis. Further discussions on root causes may be held with management at the reporting stage.

101. In general, action plans may be issue-based or root cause-based. However, merely fixing the issue does not address what caused the issue to exist and does not improve the overall governance, risk, and control environment. Therefore, wherever possible, an agreed action plan should address the underlying root cause of the issue identified. Finding and appropriately addressing the root cause will reduce (and optimally eliminate) the future recurrence of the issue.[10]

[10] For details refer to IIA Practice Guide on Audit Reports (October 2016).

D.4 Engagement Reporting

Purpose of chapter

This chapter provides guidance to the auditors on the key processes pre- and post-audit report writing that will ensure good quality output is produced by the internal audit function to add value to, and contribute improvements in the Organization's processes.

D.4.1 Fact checking (throughout the engagement)

102. Auditors should fact check throughout the engagement. This continual engagement with clients is expected to ensure transparency and avoid surprises. This is usually done by sending a follow up e-mail to relevant staff confirming the issues discussed and any agreements on the accuracy of observations and/or the provision of more clarifying information.

D.4.2 Issue observations worksheet

103. As soon as fieldwork is completed, the AIC will prepare an observations worksheet to be reviewed and cleared before it is issued to the engagement clients. The observations worksheet, which contains preliminary findings or conclusions from the engagement, provides clients with an opportunity to provide further information to validate the preliminary findings and/or help put the findings in the right context. It also provides internal auditors and the audit clients with an opportunity to brainstorm to identify and agree on feasible management action plans (MAPs) to address the risks relating to the audit findings.

104. The observations worksheet should be sent in advance to allow adequate time for the audit clients to prepare for the MAPs meeting or presented at the meeting, to allow for questions and discussions. A timeline for receiving clients' comments on and inputs into the observations worksheet, as well as proposals for MAPs should be communicated to the audit clients. The distribution list for the observations worksheet should be prepared by the AIC. The AIC will incorporate comments and inputs that may be received (where appropriate) and the updated version of the observations worksheet reviewed and cleared will be sent to the audit clients before the exit meeting.

D.4.3 Conduct MAPs meeting

105. The MAPs meeting should be held with officers with the right level of authority to take decisions regarding actions that need to be implemented to address the audit findings. This will usually comprise Managing Directors, Directors, Chiefs, UNIDO representative (in case of Field Office audits), and operational staff who are directly involved in the process, function or activity that was audited. All relevant stakeholders attending the MAPs meeting should have received the final observations worksheet and are informed of the iterative process by which the final observations worksheet was developed.

106. As much as possible, discussions at the MAPs meeting should focus on **agreeing** MAPs that address root causes of issues identified, and clearly indicate ownership and date for completion.

D.4.4 Rating of engagement observations (findings) and MAPs

107. Depending on the risk level of the weaknesses detected in the respective observations and the urgency of MAP implementation, each observation is rated according to the following criteria:

LEVEL of RISK	FINDINGS	Management Action Plans	
	Description	Description	Timing
CRITICAL	Fundamental weakness in the audited/evaluated process/ entity that is detrimental to UNIDO as a whole	Management Action Plan that mitigates the critical risk so that: - It is not detrimental at organization level anymore; and - It is not detrimental to the whole process/ entity anymore	Implementation of the Management Action Plan requires immediate action
HIGH	Fundamental weakness in the audited/evaluated process/ entity that is detrimental to the whole process/ entity	Management Action Plan that mitigates the high risk audit finding so that it is not detrimental to the whole process/ entity anymore.	Implementation of the Management Action Plan requires prompt action
MEDIUM	Significant weakness in the whole audited/evaluated process/ entity or fundamental weakness in a significant part of the process/ entity	Management Action Plan in response to a medium risk so that: - A significant weakness to the whole process/ entity; or - A fundamental weakness to a significant part of the audited process/ entity is mitigated.	Implementation of the Management Action Plan: Action required as soon as possible, but without compromising the timing of implementation of critical or very important Management Action Plans
LOW	No fundamental weakness to the whole or a significant part of the process/ entity	Management Action Plan	Implementation desirable; non-implementation is not detrimental to the process/ entity; reporting on reasons for non-implementation in the course of follow-up is required

D.4.5 Risk acceptance communication procedure

108. The process of risk acceptance communication in UNIDO is defined in accordance with the requirements of IIA Standard 2600 on communicating the acceptance of risks. As stipulated by the Internal Audit Policy, "Where no MAP is proposed or agreed by management to address a finding, or where management later decides not to implement an already agreed MAP (i.e., the audit client is willing to accept the risk), the CAE may escalate the issue to the Executive Board."

109. Therefore, in case that a MAP cannot be agreed with management (at the Department/Office level), the finding will be escalated to the level of the Managing Director (MD) responsible for the relevant business function/process, as an attempt to find a feasible and possible solution which would mitigate the detected risk. However, if the MD

assesses that the respective risk can be accepted, EIO may communicate this to the Director General and the Board, depending on the assessment of the residual risk involved.

110. As a rule, the risk acceptance from the MAP owner and/or the respective MD is communicated to EIO through a status update in TM+ or in an email. In the absence of the explicit risk acceptance statement, and in case of undue prolongation of the MAP implementation, EIO can assume that the risk has been accepted.

111. The communication of the risk acceptance to senior management and the board depends on the level of the residual risk, as follows:

(i) After its deadline, MAPs with **low, medium, and high** risks, if explicitly accepted by the respective senior manager (MD), will be closed in TM+. In case the MD did not provide an explicit risk acceptance statement, but EIO assumes that the risk has been accepted, the MD will be informed about this, and the respective MAP will be closed.

(ii) MAPs with **critical** risks, on which the CAE concludes that management has accepted a level of risk that exceeds the Organization's risk appetite or risk tolerance, are communicated to the Director General and Leadership Board. In case the Director General indicates that the risk cannot be accepted, a revised MAP will be established, as appropriate; with an explicitly assigned owner and adjusted deadline.

(iii) The CAE may inform the OAC and the IDB of the organizational acceptance of **high or critical** risk in its annual reports.

112. Information on all accepted risks may be provided to the ERM function, as appropriate, for consideration in the corporate risk register.

D.4.6 Draft and final internal audit reports

113. Based on the comments obtained from audit clients during the exit meeting, for all assurance engagements, a draft internal audit report would be prepared by the AIC and reviewed and approved accordingly before it is shared with the audit clients for final validation of audit findings, and confirmation of the agreed MAPs (discussed during the meeting described above), as well as any additional comments or information which should be considered by the auditors. The distribution list for the draft internal audit reports should be prepared by the AIC.

114. Upon receipt and consideration of management's final comments, the final audit report is prepared by the AIC, for review and approval. The CAE will issue the final audit report to the Director General, copied to the audit clients. The final audit report should also be shared with the OAC.

115. For all assurance engagements, the abbreviated final audit report will be issued concurrently to the Director General and Member States as per Board decision IDB.44/Dec.3. This report may contain the high priority audit findings and agreed MAPs (i.e. those ranked as "High" and "Critical") reported in the final audit report.

116. As for the advisory engagements, draft advisory report is issued and shared with the clients for the final validation of findings and conclusions, and confirmation of MAPs (where agreed), as well as any additional comments or information which should be considered by the audit team.

117. The final advisory report is issued to the Director General, copied to the engagement clients, and should be shared with the OAC. The report could be shared with the Member States, if appropriate, in its entirety or only as an executive summary. The decision to share with Member States is taken by the CAE on a case-by-case basis.

D.4.7 Use of personal information and names in audit reports

118. To address concerns relating to the protection of personally identifiable information, findings in draft and final assurance and advisory reports should not contain names of third parties, either individuals or corporate or other entities (including suppliers, vendors, staff members, implementing partners). This practice is important as EIO should maintain confidentiality of parties involved and help prevent EIO being held responsible for any potential reputational damage to the entity mentioned in the reports.

119. While the General Data Protection Regulation of the European Union does not directly apply to the United Nations and specialized agencies, UNIDO has endorsed the United Nations general personal data protection principles as developed by the High-level Committee on Management (HLCM).11 Collection and processing of personal data for the purposes of internal audit work is conducted in compliance with the UNIDO Policy on the Protection of Personal Data[12].

D.4.8 Audit conclusions

120. Internal audit uses a four-tier rating scheme for its audit opinion or conclusion in each audit report and/or on each audit objective beginning year 2020. Where necessary, a special meeting should be held with relevant Managing Directors and/or Directors affected by the audit to discuss the final rating, if the exit meeting is not deemed as the appropriate forum for such a discussion.

121. The ratings are shown in the table below:

Ratings	Definition
Generally effective	We observed no significant issues material to the overall achievement of the strategic objectives within the audited environment. Internal controls, governance and risk management processes were fit for purpose. This means they were generally adequate, appropriate, and effective to provide reasonable assurance that objectives will be met.
Room for further enhancement	We observed some issues. Collectively, these were not material to the overall achievement of the strategic objectives within the audited environment. Internal controls, governance and risk management processes provide reasonable assurance that objectives will be met. Nonetheless, addressing these issues will further enhance efficiency and/or effectiveness.
Requires strengthening	We observed some significant and/or material issues that compromise the overall achievement of the strategic objectives within the audited environment. The design and/or operating effectiveness of internal controls, governance and risk management processes require

[11] UN High-Level Committee on Management (HLCM) adopted in 2018 a set of personal data protection and privacy principles setting out a basic framework for the processing of personal data by, or on behalf of, the UN System Organizations in carrying out their mandated activities.
[12] UNIDO Policy on the Protection of Personal Data (DGB/2023/05, of 14 March 2023).

Ratings	Definition
	strengthening to provide reasonable assurance that objectives will be met.
Requires urgent action	We observed multiple significant and/or material issues. Internal controls, governance and risk management processes do not provide assurance that the Organization's strategic objectives will be met. Urgent action is needed to prevent strategic or reputational damage to the Organization.

D.4.9 Communication of the internal audit-related reports

122. During the different phases of the audit process, several reports are produced, which are communicated according to the table below:

Report	Audit clients (P5, D1)	Director General	Leadership Board	OAC	IDB, Member States
Audit or Advisory Report	✓	✓	✓	✓	✓
Annual Activity Report		✓	✓	✓	✓
Quality Self-Assessment		✓	✓	✓	
External Quality Assessment		✓	✓	✓	✓

D.4.10 Engagement file completion

123. Prior to engagement closure, the AIC should ensure that all areas of the engagement file are completed and reviewed, including full documentation in TM+. The CAE should provide the final sign-off that allows closure of the engagement file.

D.5 Follow up of Management Action Plans (MAPs)

Purpose of chapter

This chapter guides the auditors on the key roles, responsibilities, activities, and reporting which should be done in the follow up on implementation of MAPs.

124. MAPs must be created by the AIC or a team member in TM+ with clear timelines and appropriately assigned within 30 days after issuance of the final report. A separate SOP on TM+ provides detailed guidance for internal auditors on the follow up process in TM+.

125. It is the responsibility of the MAP owners to implement MAPs as soon as possible or at the latest, at the agreed deadline. In line with the UNIDO Secretariat Structure, overall responsibility to oversee and ensure implementation of recommendations made by oversight bodies and external/internal auditors lays with the respective Managing

Directors. Upon implementation, MAP owners (or departmental focal points, if assigned) should update the MAP status in TM+ and submit the supporting documentation, as evidence of implementation.

126. With the introduction of TM+ the conditions were set for automation of the follow up process. Once the notification system and workflows are configured in TM+, follow up process will be implemented in the way that business owners of MAPs will receive notifications about their respective MAPs and will have direct access to TM+ to update the status and provide the documents for MAPs verification.

127. As part of its follow-up process, every quarter automated reminders will be sent to departmental focal points to report on the implementation status of all MAPs directed to the organizational units within their Directorates. All status reports on MAPs implementation containing requests for MAPs closure or the deadline prolongation will be verified by the AIC. The outcome of the AIC's verification should be documented in TM+ for further review and approval. The status updates, which contain only additional information and details on the progress, will be noted in TM+ without verification.

128. In the case where a MAP is not implemented within the given deadline, the responsible manager can ask for an extension of the deadline. The request for the extension will be reviewed and, if deemed reasonable and justified, the new deadline will be agreed. The initial deadline can be extended twice, for a maximum of one year period (in total).

129. After receiving the information that the MAP cannot be implemented as agreed, the audit team will reassess the residual risk related to the respective finding, which will be then considered for the risk acceptance process and further communication as described in chapter D.4.6.

130. The CAE reports on the outcome of the follow-up process to the Director General and the OAC. The internal audit function will furthermore inform on the outcome of this process in its yearly activity report to the Board.

D.6 Referring matters for investigation

Purpose of chapter

Purpose of this chapter is to provide guidance to internal auditors on situations where indicators of possible misconduct is detected during an audit or advisory engagement.

131. The main responsibility of internal audit activities is to provide assurance on the adequacy of internal controls, UNIDO's risk management framework, and governance processes. It is important to underline that the internal audit and investigation functions are separate and distinct. The aim of internal audit activities is not to detect potential misconduct but when red flags of potential misconduct are found during an internal audit engagement, those must be referred to the investigation function within EIO for further action as per the Investigation Policy.

132. In this context, matters that give indications of the possibility of fraud or misconduct should be brought to the immediate attention of the Chief. In such case, the AIC will prepare a note for the file detailing the red flags of potential fraud, corruption, or other misconduct

identified, with supporting documents if any. The note for the file contains the following information: subject of interest, type of misconduct, date or period when alleged misconduct occurred, details and supporting documents, if any.

Section E:
Quality Assurance and Improvement Programme

Purpose of section

In accordance with the Standards and further to Chapter V. Quality Assurance of the Internal Audit Policy, this section provides details of the internal audit function's Quality Assurance and Improvement Programme (QAIP).

E.1 Main elements of QAIP

133. The QAIP is integrated into the structure of the internal audit activity and encompasses all aspects of internal audit activity. The main elements of QAIP are: (a) quality built in audit activity; (b) ongoing monitoring; (c) periodic internal quality assessments; and (d) external quality assessments. This enhances the performance of, and value derived from, these activities and ultimately supports the overall organizational success. The CAE is ultimately responsible for the QAIP.

134. As outlined in the Internal Audit Policy, QAIP is designed to assess the quality of internal audit activities, and to demonstrate that the function: (a) performs its work in conformance with the provisions of the Charter, Internal Audit Policy, and the IPPF; (b) operates in an effective and efficient manner; and (c) is perceived by stakeholders as adding value to and improving the Organization's operations and its governance, risk management and control processes.

135. According to Standard 1320, the results of the QAIP must be reported to senior management and the board. In practice, this reporting is done via the annual report to the Board and to the Director General, and regular reporting to the OAC.

E.2.1 Quality built in audit activity

136. The components that are built into the internal audit activity that will drive quality include:

Internal audit activity aspect			
Governance	**Staff**	**Management**	**Process**
• Charter defining mandate; • Independence and objectivity; • QAIP aligned with the IIA's recommended QAIP; • Internal Audit Policy and Manual aligned to IIA standards for guidance;	• Clear roles and responsibilities; • Proficiency and due professional care; • Continuous professional education • Annual review of training needs	• Risk-based audit planning; • EIO universe encompassing all activities • Coordination with other Assurance Providers; • Feedback from audit clients about audit engagements;	• Quality control of audit engagements through appropriate supervision throughout the audit. • Mechanisms for communicating results; • Follow up of agreed action plans;

Internal audit activity aspect			
Governance	**Staff**	**Management**	**Process**
• Strategic and annual audit plans duly approved and followed.		• Regular reporting to the senior management and the Board	

E.2.2 Ongoing monitoring

137. Ongoing monitoring provides assurance that the processes within the internal audit function are working effectively to ensure quality is delivered on an engagement-by-engagement basis. Quality is primarily achieved through continuous monitoring activities, including audit planning and supervision, standard working practices, working paper procedures and signoffs, and report reviews.

138. Engagement supervision: Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed. The extent of supervision required will depend on the proficiency of the auditors and the complexity of the assignment. Appropriate evidence of supervision should be documented and retained, and should include but not be limited to:

(a) Providing suitable instructions to the team at the outset of the engagement and approving the engagement programme;

(b) Assigning assurance and advisory engagements to team members with a clear outline of what is expected from the team;

(c) Ensuring that all team members fully understand the objective(s) and desired outcomes of the engagement;

(d) Ensuring that the approved audit/advisory programme is carried out unless deviations are both justified and authorized;

(e) Providing appropriate counsel, advice and on-the-job training, based on the experience of the team members;

(f) Determining that working papers adequately support the findings, conclusions, and reports;

(g) Ensuring that audit reports are accurate, objective, clear, concise, constructive, and timely; and

(h) Determining that audit objectives are met.

139. Review/signoff off at critical stages of the audit process: Key engagement documents, including the planning documents (preliminary risk assessment, engagements' scope, work programme, work papers, observation sheet and draft reports), shall be reviewed to ensure that they properly support the engagement objectives, that all necessary audit procedures have been performed, and available evidence supports the conclusions in the reports. Evidence of supervisory review may be in different forms:

(a) The reviewer initialing and dating, or approving in TM+ directly, each working paper after it is reviewed;

(b) Written records, or TM+ notes, (review notes or e-mails) of questions and comments arising from the review process (especially for report reviews);

(c) Completing an engagement working paper review checklist; and/or

(d) Evaluation and acceptance within TeamMate.

140. The table below shows the review and clearance/approval matrix for ongoing monitoring of internal audit processes, from the risk assessment and annual planning to the follow up and reporting. This matrix applies to both: review and clearance/approval of documents in TM+ and outside of it. In case the review or clearance/approval occurs outside of TM+, the evidence should be stored in TM+ accordingly.

(a) Ongoing monitoring and quality assurance for internal audit work plan

Document	Auditor-in charge	Chief, EIO/IOU	CAE
Risk Assessment	Draft	First review	Second review and clearance/approval
Work Plan	Draft	First review	Second review and clearance/approval
Significant change of the Work Plan	Draft	First review	Second review and clearance/approval
Assessment and approval of ad-hoc audit/advisory requests and minor changes to the Work Plan	Draft	First review	Second review and approval

(b) Ongoing monitoring and quality assurance for internal audit engagements

Audit Phase	Working papers	Auditor-in charge	Chief, EIO/IOU	CAE
Planning	Notification letter	Draft, TM+ status Completed	First Review, TM+ status Reviewed Accepted	Second review and Clearance, TM+ status Reviewed Accepted
	Engagement Planning document (scope and objectives, preliminary risk assessment)	Draft, TM+ status Completed	First Review, TM+ status Reviewed Accepted	Second review and Clearance, TM+ status Reviewed Accepted
	Engagement Programme	Draft, TM+ status Completed	First Review, TM+ status Reviewed Accepted	Second review and Clearance, TM+ status Reviewed Accepted
Execution	All audit procedures and Working papers	Draft, TM+ status Completed	Review, TM+ status Reviewed Accepted	
Reporting	Observations worksheet	Draft, TM+ status Completed	First Review, TM+ status Reviewed Accepted	Second review and Clearance, TM+ status Reviewed Accepted
	Draft management letter	Draft, TM+ status Completed	First Review, TM+ status Reviewed Accepted	Second review and Clearance, TM+ status Reviewed Accepted
	Final audit report	Draft, TM+ status Completed	First Review, TM+ status Reviewed Accepted	Second review and Clearance, TM+ status Reviewed Accepted
	Final Report for Member States	Draft, TM+ status Completed	First Review, TM+ status Reviewed Accepted	Second review and Clearance, TM+ status Reviewed Accepted

(c) Ongoing monitoring and quality assurance for internal audit work plan

Working papers	Auditor-in charge	Chief, EIO/IOU
Entering the Issue and MAP in TM+	TM+ status Completed	Review, TM+ status Reviewed Accepted
Status update – information on progress	Review, TM+ Status In Progress	

Working papers	Auditor-in charge	Chief, EIO/IOU
Status update – request for change	Review, TM+ Status In Progress	Review, TM+ Status In Progress
Status update – MAP implementation	Review, TM+ Status Reviewed Accepted	Review, TM+ status Closed

(d) Internal Audit Activity Reporting

Document	Chief, EIO/IOU	CAE
Annual Report to DG	Draft	Review and clearance/approval
Annual Report to IDB	Draft	Review and clearance/approval
Periodical reports to OAC	Draft	Review and clearance/approval

141. The primary responsible parties may delegate, but are still accountable for their responsibilities. Delegations should be evidenced in working papers.

142. Regular (usually weekly) team meetings are an important tool for the internal audit manager to supervise the internal audit activities. The outcome of individual engagements is discussed and assessed during team meetings. Improvements to engagements are made based on lessons learned, as required.

143. Validation of conclusions with audit clients: Development of audit findings and management action plans follows an inclusive process, which includes an observations worksheet shared with the audit clients/management, subsequent discussion and written comments, draft audit report, written comments, final audit report, final report for Member States. This process provides useful feedback about quality of audit deliverables.

144. Client satisfaction surveys: Auditors should obtain feedback from clients on the proficiency and effectiveness of work performed. These surveys will be sent to relevant stakeholders in the Secretariat and the Country Offices after the final report has been issued.

E.2.3 Periodic internal quality assessments

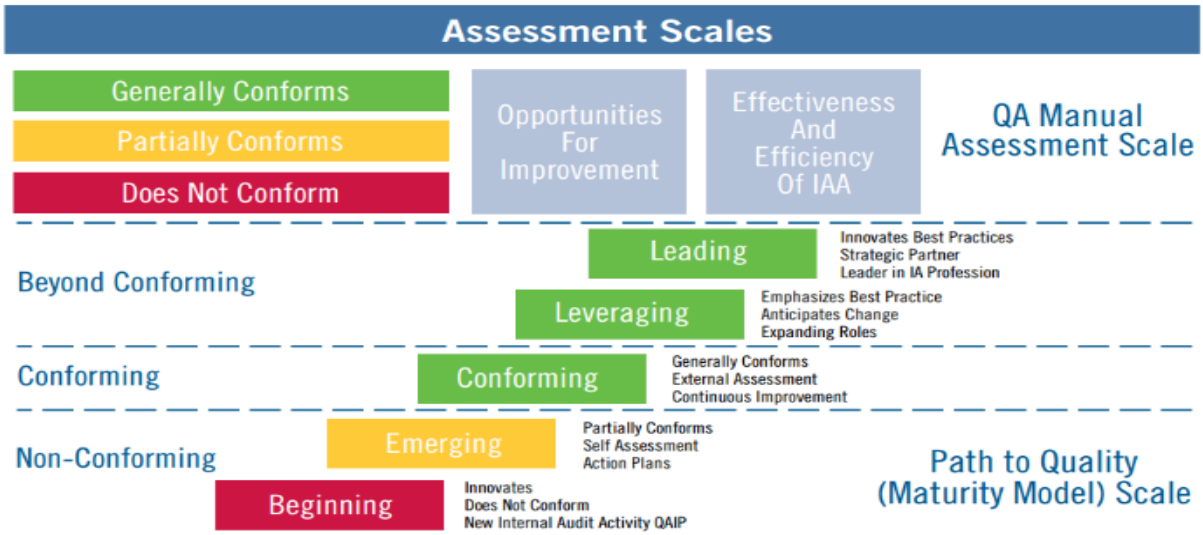
145. An internal assessment is performed periodically, evaluating whether the internal audit activity conforms with relevant standards, complies with the Charter, policies, procedures, and operates efficiently and effectively. The internal assessment may also include an evaluation of specific areas such as respect of the audit methodology, use of audit software, etc. The internal assessments are conducted through various mechanisms, including:

(a) Monitoring and reporting on key performance indicators (KPIs): EIO has defined a set of KPIs (refer to EIO strategy). These KPIs are regularly monitored and analysed. Results are reported annually through the annual report to the Director General.

(b) Assessing conformance with the Standards: The IA function carries out a comprehensive self-assessment regarding conformance with the Standards every five years, as preparation for the independent external validation (see below chapter I). In addition, during the interim years, the IA function carries out an annual high-level update of the conformance status and describes in the annual report to the Director General and the annual report to the Board how it conforms with the Standards (as per standard 2060).

(c) Assessing implementation status of internal audit-related recommendations: Other assurance providers (e.g. the External Auditor, the JIU, external validators), as well as internal audit function itself (during the course of a self-assessment) issue recommendations/MAPs that are addressed to internal audit process. The IA function maintains a repository of such recommendations and regularly reviews it, to ensure timely follow-up and continuous improvement of the quality of internal audit work.

(d) Overall satisfaction survey: Management surveys are indispensable when it comes to assessing the overall effectiveness of internal audit work. Therefore, EIO may carry out periodic surveys/interviews via a dedicated questionnaire or as a part



of interviews with management for the purpose of the annual risk assessment, to obtain feedback from key internal stakeholders.

D.2.4 External Assessment

146. External assessments will be carried out every five years by a qualified, independent assessor in accordance with the IIA Standard 1300. The external assessment can take one of two forms: (i) a full scope review; or, (ii) a self-assessment with independent validation. EIO implements one of the two options based on consideration of relevant factors and available resources. The assessments would conclude two aspects: (i) if the audit function conforms with the Standards; and if so, (ii) the extent to which it does.

147. In addition to concluding on conformance with the Standards and the IIA Code of Ethics, the external assessment may, whenever practicable, include also rating against an internal audit maturity model (see Figure 4 below). This would provide further insight into opportunities for improvement to further increase added value to the Organization.

Figure 4. Internal audit maturity model