



## Overseeing and Evaluating an Internal Audit Function's Effectiveness

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## Introduction

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The oversight roles and responsibilities of audit committees are continuously expanding. This can be attributed to a number of factors which include, but are not limited to, the following:

- **Increased organisational complexity**
- **Changes and increased complexities with reference to legislative and regulatory frameworks (see Annexures 1 & 2)**
- **More comprehensive reporting oversight responsibilities due to an increase in public and/or stakeholder scrutiny of an organisation's performance and value-add outcomes**
- **More robust governance frameworks and requirements, and**
- **Increased complexity in scope of work with regard to assurance providers (both internal and external)**

In addition to these factors, the number of governance failures (in both the public and private sectors) over the years has highlighted the importance of oversight committees, especially that of the Audit Committee (AC). This has a direct impact on AC members' scope of work and increase in responsibilities. As such, an efficient and effective internal audit function (IAF) is not only of pivotal importance to an organisation from a governance, risk management and internal control perspective, but also from the perspective of supporting the AC members in the delivery on their oversight mandate through the provision of independent and objective assurance, advice and organisational insight. Accordingly, AC members should properly acquaint themselves with the role that Internal Audit performs and the International Professional Practices Framework (IPPF) that governs the internal audit profession. As an introductory note, it is important to regard the relationship between the AC members and an organisation's internal auditors as mutually beneficial.

It should also be noted that the term "organisation" in this guidance paper is used to collectively refer to national and provincial departments, public entities, municipalities and municipal entities.

## A high-level overview of Internal Auditing's roles and responsibilities

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For an IAF to function optimally, it requires support from the AC and management to ensure that the IAF can deliver on its mission statement as per the IPPF. In turn, AC members rely on the work of the IAF to efficiently and effectively deliver on its oversight responsibilities and mandate as set out in the AC charter.

In order to fully leverage the benefits of the IAF and provide effective oversight, AC members should have an understanding of what the Institute of Internal Auditors South Africa (IIA SA) requires of an IAF and individual internal auditors and the conformance requirements with reference to the IPPF. In this regard an AC's assessment of the IAF should be motivated by the IPPF Attribute Standard 1300.<sup>1</sup>

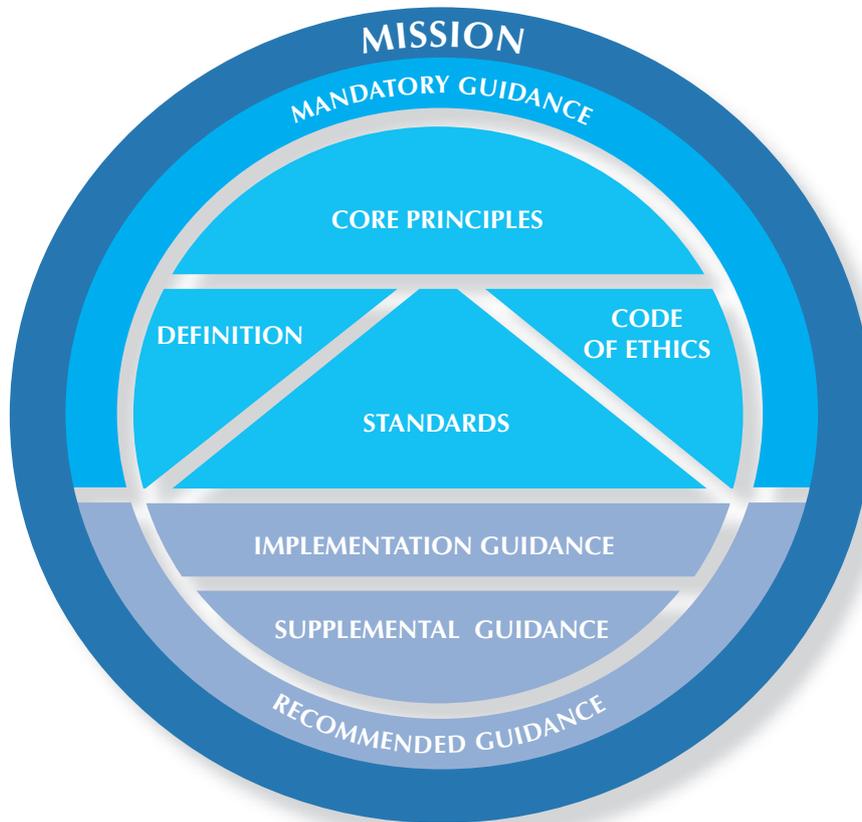
Upon completion of a quality assurance review of the IAF, the results of the review should be reported to the AC, whereupon members should have sufficient knowledge to create and support an environment that enhances efficiency and compliance of the IAF.

These oversight roles and responsibilities as it relates to Internal Audit are set out in greater detail in Annexure 1. However, it is important that all AC members ensure that they have a general understanding of what the roles of the internal auditor are and which minimum elements of the IPPF the organisation's internal auditors need to conform to. This will lead to the clarification of the roles of the internal auditor (avoiding potential role confusion) and ensure the greatest potential value add to the organisation, as well as to the organisation's oversight committees (including the AC), from Internal Audit. Accordingly, consideration first needs to be given to the IPPF itself, as set out on page 3.

<sup>1</sup> IPPF Standard 1300 – Quality Assurance and Improvement Program.



International Professional  
Practices Framework



**Figure 1:** Institute of Internal Auditors' IPPF **Source:** Institute of Internal Auditors, 2019.

The key elements of the IPPF for an AC member's consideration include the mission statement of Internal Auditing and the mandatory guidance elements of the framework. More specifically, the following IPPF elements are of particular importance, especially in the evaluation of internal audit effectiveness:

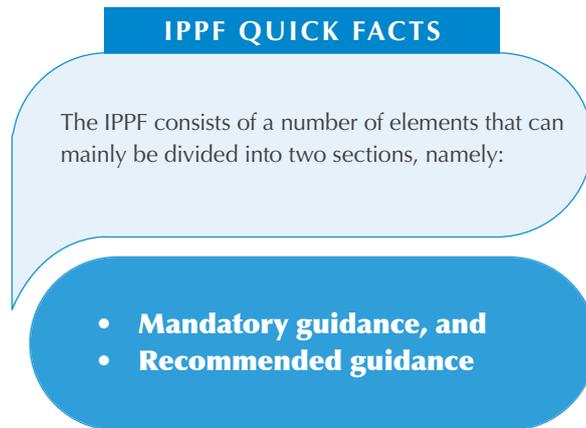
- **THE MISSION STATEMENT**
- **THE CORE PRINCIPLES**
- **THE STANDARDS, AND**
- **THE CODE OF ETHICS**

Interpretation: A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The CAE should encourage board oversight in the quality assurance and improvement programme.

## Interpretation of IPPF

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(For more information on the Core Principles, Standards and the Code of Ethics please refer to Annexure 3)



Conformance to the mandatory guidance elements of the IPPF is compulsory for internal auditors.

All members of the IIA SA must conform to the IPPF, and the only way internal auditors in South Africa can be currently held professionally accountable is through employers ensuring they only appoint IIA SA members, who must conform to the IPPF.

### Oversight in relation to functional and administrative reporting lines

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As already mentioned, the AC has oversight responsibilities over the effective functioning of Internal Audit within an organisation. This oversight responsibility covers the planning, execution and reporting of Internal Audit against the internal audit plan and charter approved by the AC.

The Chief Audit Executive (CAE) ideally reports administratively within the organisation to the accounting officer and functionally to the AC led by the chairperson. Reporting to the most senior officer in the organisation has a positive effect on the independence of the IAF. Examples of functional reporting to the AC involve, but are not limited to, the following:

- Approving the internal audit charter
- Approving the risk-based internal audit plan
- Approving the internal audit budget allocation and resource plan in line with the relevant legislative frameworks, laws and regulations
- Receiving communications from the CAE on the IAF's performance relative to its plan and other matters
- Recommending and approving decisions regarding the appointment, removal of the CAE, and performance assessments of the IAF in line with the relevant legislative frameworks, laws and regulations, and
- Making appropriate inquiries of management and the CAE to determine whether there is inappropriate scope or resource limitations

It is also important to note that the IAF is occasionally combined<sup>2</sup> with the risk management and compliance functions in the public sector, especially when skills scarcities are experienced within an organisation. This may be perceived as an impairment to Internal Audit's independence. However, to address this, appropriate safeguards need to be considered and implemented and independently reviewed for their adequacy and effectiveness. The AC members should satisfy themselves that where internal auditors have taken on additional operational responsibilities, additional safeguards have been implemented and that such safeguards are operating as intended. For clarification purposes, AC members need to note that where the CAE is also responsible for other activities (risk management, compliance, ethics, etc) the assurance engagements for these activities would need to be outsourced to ensure the independence of the evaluation of such activities.

Accordingly, it is preferable to segregate these operational management activities from Internal Audit. Some other additional minimum oversight roles and responsibilities as it pertains to the AC's oversight of the IAF is unpacked further in the next section.

<sup>2</sup> IPPF Standard 1112 – Chief Audit Executive Roles Beyond Internal Auditing. Interpretation:

The CAE may be asked to take on additional roles and responsibilities outside internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organisational independence of the IAF function or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibilities.

## The AC's oversight roles and responsibilities

The Public Sector Audit Committee Forum (PSACF) recommends that, as a minimum, the AC should oversee the following with regard to the IAF:

- 1** Review and approve the internal audit charter annually or whenever amendments are necessary, that is, if there are any changes in legislation or in the organisation's operating environment requiring changes to the charter. As a minimum, the internal audit charter should include:
  - The purpose of the IAF
  - Its status and place in the organisational structure
  - Responsibilities
  - Relationship with management, External Audit (combined assurance) and other assurance providers
  - Operational issues
  - Assessment (quality assurance and improvement programme)
- 2** Review and ensure that the IAF adheres to its relevant legislative mandate and to the IIA SA's mandatory guidance elements of the IPPF, especially the Standards and the Code of Ethics (at a minimum).
- 3** Ensure that the IAF reports annually on its quality assurance and improvement programme. Ensure that the IAF (in-house, co-sourced and outsourced) is subjected to an external independent quality review in line with IIA SA standards and as and when the AC determines it appropriate, but at least within five years of the previous review, as a measure to ensure the function remains effective.
- 4** The AC should assess the options for sourcing Internal Audit and consider, among others, issues such as the size of the organisation, complexity of the operations, the available budget, and the ability of the IAF to execute its duties suitably. (Refer to the IIA SA documents on "How to employ an internal auditor" and the tender proposal guidelines, [www.iiasa.org.za](http://www.iiasa.org.za).)
- 5** Assess the adequacy of skills and size of Internal Audit staffing versus the complexity of the organisation and changes in the organisation's operating environment. Review and advise on IAF resourcing.
- 6** As best practice, review a three-year training programme for the IAF to ensure that appropriate attention is given to quality, report writing skills and keeping abreast of developments and changes in the field of internal audit, and that staff are maintaining their ongoing professional development.
- 7** Ensure that there is a transfer of skills by contractors to employees. When internal audit is co-sourced/outsourced, review and confirm that skills transfer happens to capacitate the IAF, and get confirmation from the CAE.
- 8** Be involved in the recruitment process and performance appraisal of the CAE as well as the retention, disciplinary or dismissal of the CAE. This, then, reinforces the clear reporting line to the AC as opposed to management.
- 9** Approve the risk-based internal audit plan through review and assess the coverage and adequacy of the plan when compared with the risks facing the organisation and the effect of the combined level of assurance on the risks and the results of External Audit. As a minimum, the risk-based internal audit plan should cover:
  - Operational effectiveness and efficiencies across processes
  - Financial reporting – reasonable prevention and detection of accounting errors, control weaknesses and fraud
  - Compliance with laws, regulations and internal policies
  - Information technology (IT) – systems and internal functioning of the IT department
  - Effectiveness of risk management within the organisation
  - Assessment of strategy, business plans and budgets, and
  - Performance setting, monitoring and reporting
- 10** Review and approve the allocation of the budget of Internal Audit in line with the annual internal audit plan and the alignment of hours on the internal audit plan versus the budget being presented.

## The AC's oversight roles and responsibilities (Continued)

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- 11** Review the proportion of completed projects per the approved plan vs completed ad hoc projects.
- 12** Encourage cooperation between External and Internal Audit. Review coverage and scope between External and Internal Audit to avoid duplication of effort and possible cost savings from the alignment of the two functions. Timing of internal audits and the months during the financial period that the audit scope will cover must be aligned as far as possible and in line with the risk-based approach to be followed by the organisation's IAF. This will ensure optimisation of the combined assurance obtained.
- 13** Review and assess the written assessment prepared by Internal Audit regarding internal financial controls.
- 14** Review and track quarterly progress of Internal Audit against the approved internal audit plan for the year and ensure that reports are tabled in a timely manner after completion. Targets should be set in the CAE performance contract on the achievement of the plan and the timeous submission of reports to the AC.
- 15** Review reports from Internal Audit on a quarterly basis in line with the internal audit plan. When the AC reviews such reports, attention should be given to issues/findings and the impact on the overall risks facing the organisation as well as any impact on the financial year-end external audit. It can be one of the early warning indicators to management and the AC.
- 16** Ensure open lines of communication between the AC and the IAF. This can be implemented by having an agenda point added for an in camera session which can be scheduled at each of the quarterly AC meetings where Internal Audit meets separately with the AC and discusses issues.
- 17** Monitor and evaluate the effectiveness and quality assurance of the IAF. This can be performed by having an independent review being performed at least every five years with an implementation plan being drafted to address the issues/findings. Performance targets must be set for the CAE in his/her annual performance contract arising from such an evaluation so that there is alignment between the need for having an effective IAF and the allocation of such accountability and responsibility.
- 18** Review policies affecting the functioning of Internal Audit, such as the internal audit charter in the organisation.
- 19** Understand the format of reports being presented by Internal Audit and the rating scales used to assess, rate and finally conclude on the overall functioning of the area being audited, as well as the alignment and link in with the impact on the operational and strategic risk register. It is suggested that as a part of the orientation of new members of the AC, Internal Audit should be able to disseminate their reports and provide a workshop to them so that members have a clear understanding of how a report is compiled and what information is being presented. This will aid in members' ability to make decisions from their review of reports being presented during their tenure.
- 20** Recommend the appointment of an external service provider if the IAF is outsourced. This would typically occur every three to five years, and the sourcing of tenders should be started at least 12 months prior to the planned rotation. There is at times a level of confusion within management in the public sector on their role versus the role of the AC on the appointment of an external service provider for the provision of internal audit services. Management would participate in the process administratively by administering the procurement-related aspects of the tender process. The AC would be involved in the evaluation of the submissions together with management by appointing at least one or two member(s) of the AC to evaluate the tender submissions. All shortlisted service providers (at least three) would then be required to do at least one presentation to the AC to allow for questions on approach, methodology, skills, staffing, training, budget, previous experience with the operating environment of the organisation, proven external quality assurance record of internal audit-related work provided to clients, etc. Taking into consideration relevant legislative frameworks, laws and regulations, the AC should be ultimately accountable and responsible for the selection and appointment of the successful service provider.
- 21** Review any reports from Internal Audit on limitation of scope, extension of audit deadlines beyond three months by management, and repeated cancellation of scheduled audits unnecessarily, and decide on the way forward.
- 22** Preside over disagreements between management and internal auditors and ensure that open communication lines are promoted at all times. A formal process should be documented and circulated as part of the service level agreement from Internal Audit that covers how disagreements will be dealt with and the escalation processes to be followed. This can be included in the IAF policy document.

- 23** Strive towards setting a tone where an IAF has the confidence and courage to report any significant issues even if it involves senior management and/or the accounting officer / accounting authority. The AC must also protect internal auditors who report such information from potential intimidation and/or victimisation by the senior management team / accounting officer / accounting authority.
- 24** Review the extent of validated audit findings initially reported to management.
- 25** Review effective internal audit planning process approval of Internal Audit plans on/before the first month of the financial year.
- 26** Review the extent of reliance placed by External Audit in pre-determined areas.
- 27** Consider if the CAE has a standing invite at Exco.
- 28** Review final reports compiled and submitted to the AC versus those originally planned.

## Conclusion

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The oversight responsibilities of AC members in relation to an effective IAF in the public sector can be summarised on a high level as follows:

### **AC members need to:**

- Ensure that the Head of Internal Audit / Chief Audit Executive has direct access to the accounting officer / accounting authority and the AC and that he/she is functionally accountable to the AC
- Ensure that Internal Audit is appropriately tasked and resourced and has sufficient authority and standing to carry out its tasks effectively within the organisation
- Review and assess the annual Internal Audit work plan
- Receive a periodic report on the results of the internal auditor's work
- Review and monitor management's responsiveness to the internal auditor's findings and recommendations
- Meet with the Head of Internal Audit / Chief Audit Executive at least once a year without the presence of management, and
- Monitor and assess the quality and effectiveness of Internal Audit and its role in the overall context of the organisation's risk management system

Lastly, when taking into consideration the information in this guidance paper, it is evident that AC members have a pivotal role to play in ensuring good governance, proper risk management and effective systems of internal control in their respective organisations. Furthermore, AC members will only effectively deliver on this mandate as required by the relevant legislative frameworks and regulations (see Annexure 1 for an overview of some of the relevant legislative frameworks) should they have an effective IAF within the organisation that appropriately supports them in the achievement of their mandate. Appropriate and effective oversight of the IAF can thus be considered as a critical element in the establishment and maintenance of sound organisational governance, risk management, and internal control within public sector entities. AC members should give careful consideration to their oversight roles and responsibilities as it relates to their respective organisations' IAF and internal auditors. Proper oversight of the IAF has a positive impact on the effectiveness of the IAF, which will result in improved organisational corporate governance, risk management and internal control.

Kindly note that for practical purposes, an example of an evaluation form that can be used by the AC in the evaluation of an IAF is provided in Annexure 3 of this guidance document.

Matter	Public Finance Management Act (PFMA) and Treasury Regulations (TR)	Financial Management of Parliament and Provincial Legislatures Act (FMPPLA)	Municipal Finance Management Act (MFMA)	Companies Act	King IV
<b>Compliance requirements of the legislation/ regulations/ codes</b>	Compulsory compliance	Compulsory compliance	Compulsory compliance	Compulsory compliance <sup>3</sup> where the public sector institution is also a company	Recommended compliance <sup>4</sup>
<b>Applicability</b>	National and provincial departments, trading entities and government components  Public entities listed in Schedule 2 or 3  Constitutional institutions	Parliament  Provincial legislatures	Municipalities  Municipal entities	State-owned companies incorporated in terms of the Companies Act  (Certain public entities and municipal entities (should be all of them))	All institutions incorporated and resident in South Africa
<b>Relevant section</b>	Sections 76 and 77  Treasury Regulations 3.1 and 27.1	Section 47	Section 166  MFMA Circular 65 <sup>5</sup>	Section 94	Part 5.3, Principle 8
<b>Role in relation to the relevant governing body</b>	Independent advisory committee to accounting officer / accounting authority	Independent advisory committee to the accounting officers	Independent advisory committee to the municipal council, the political office bearers, the accounting officer and the management staff of the municipality, or the accounting authority, the accounting officer and the management staff of the municipal entity	Statutory committee  Sub-committee of the board	Committee of the governing body
<b>Responsibility for appointment</b>	Accounting officer in consultation with the executive authority (non-shared Audit Committee, AC)  Head of the relevant treasury in consultation with the relevant executive authority  Accounting authority of public entities	Executive authority	Council of the municipality  Council of the parent municipality (municipal entity)		Governing body
<b>Membership</b>	At least three persons of whom, in the case of a department:  <ul style="list-style-type: none"> <li>• One must be from outside the public service</li> <li>• The majority may not be persons in the employ of the department, except with the approval of the relevant treasury, and</li> <li>• The chairperson may not be in the employ of the department</li> <li>• May be established for two or more departments or institutions if the relevant treasury considers it economical</li> </ul> <p>The chairperson must be independent, may not be a political office bearer (in the case of departments and constitutional institutions), nor the chairperson of the accounting authority or a person in an executive function (in the case of public entities)</p>	At least three persons with appropriate experience and knowledge  More than half of the members of the committee must be individuals who:  <ul style="list-style-type: none"> <li>• Are not employed by Parliament or the State and are not Members of Parliament, a provincial legislature or a municipal council, and</li> <li>• Have no personal or financial interest in any matter related to Parliament</li> </ul> <p>The chairperson must be independent and knowledgeable of the status of the position and must have the requisite business, financial and leadership skills</p>	At least three persons, of whom the majority may not be in the employ of the municipality or municipal entity  A single AC may be established for a district municipality and the local municipalities within that district municipality  Appointed members must have appropriate experience	At least three members  Specific composition requirements  Each member must be a director of the company  The members may not be (or be related to) a person who is involved in the day-to-day management of the company's business or has been so involved at any time during the previous financial year  The members may not be (or be related to) a person who is a prescribed officer or full-time employee of the company or another related or interrelated company, or has been such an officer or employee at any time during the previous three financial years	At least three members  The members of the AC should, as a whole, have the necessary financial literacy, skills and experience to execute their duties effectively  All members of the AC should be independent, non-executive members of the governing body  The chairperson should be an independent non-executive member  The chairperson of the governing body may not be a member of the AC  The committee should have a balanced distribution of power in respect of membership (cross committee) so that no individual has the ability to dominate decision-making and no undue reliance is placed on any individual

Matter	Public Finance Management Act (PFMA) and Treasury Regulations (TR)	Financial Management of Parliament and Provincial Legislatures Act (FMPPLA)	Municipal Finance Management Act (MFMA)	Companies Act	King IV
<b>Membership</b> <i>(Continued)</i>	<p>All members to be independent (departments, constitutional institutions and public entities)</p> <p>Majority of AC members should be non-executive members (public entities)</p> <p>The majority of persons serving on an AC must be financially literate</p> <p>The chairperson of an AC must be independent, be aware of the status of the position, and have the requisite business, financial and leadership skills</p> <p>The members of the AC who have been appointed from outside the public service must have the appropriate skills</p>			<p>The members may not be (or be related to) a person who is a material supplier or customer of the company, such that a reasonable and informed third party would conclude in the circumstances that the integrity, impartiality, or objectivity of that director is compromised by that relationship</p> <p>The minister may prescribe minimum qualification requirements for members of an AC as necessary to ensure that any such committee, taken as a whole, comprises persons with adequate relevant knowledge and experience to equip the committee to perform its functions</p>	

3 Compliance with the PFMA/MFMA/FMPLLA takes precedence over compliance with the Companies Act in the event of conflict.

4 Compliance with the principles in King VI is compulsory for those entities who have their equity or debt instruments listed on the Johannesburg Stock Exchange (JSE).

5 The circular provides detailed guidance, but compliance is only compulsory if adopted by the municipal council.

## Annexure 2

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### Examples of Relevant Legislation with Specific Reference to Internal Audit Responsibilities and Oversight Requirements

#### Public Finance Management Act 1 of 1999 (PFMA)

In terms of the PFMA Section 38 (1) (a) (ii) the accounting officer for a department, trading entity or constitutional institution must ensure that there is maintenance of a system of internal audit under the control and direction of an Audit Committee (AC) complying with and operating in accordance with regulations and instructions prescribed in terms of Sections 76 and 77 of the PFMA.

#### Municipal Finance Management Act 56 of 2003

In terms of the MFMA Section 62 (1) (c) (ii) the “accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure [that] the municipality has and maintains effective, efficient and transparent systems of internal audit operating in accordance with any prescribed norms and standards”.

In terms of the MFMA Section 166 (1) each municipality and each municipal entity must have an AC. Section 166 (2) states that an AC is an independent advisory body which must advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to internal financial control and internal audits.

#### Treasury Regulations

Treasury Regulations section 3.1.10 states that the AC must, among others, review the following:

- (a) The effectiveness of the internal control systems
- (b) The effectiveness of the internal audit function (IAF)
- (c) The risk areas of the institution’s operations to be covered in the scope of internal and external audits
- (d) The adequacy, reliability and accuracy of the financial information provided to management and other users of such information
- (e) Any accounting and auditing concerns identified as a result of internal and external audits
- (f) The institution’s compliance with legal and regulatory provisions, and
- (g) The activities of the IAF, including its annual work programme, coordination with the external auditors, the reports of significant investigations, and the responses of management to specific recommendations

#### Principle 15 of the King Report on Governance for South Africa (King IV)

Principle 15 of King IV states that the governing body should ensure responsibility for the direction and arrangements of the organisation’s IAF and should delegate oversight of Internal Audit to the AC.

## Annexure 3

### The International Professional Practices Framework for Internal Auditing (IPPF)

#### Core principles

Audit Committee (AC) members should note that the Institute of Internal Auditors South Africa (IIA SA) (2019) stated that the “Core Principles, taken as a whole, articulate internal audit effectiveness. For an IAF to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit function, demonstrates achievement of the Core Principles may be quite different from organization to organization, but failure to achieve any of the Principles would imply that an internal audit function was not as effective as it could be in achieving internal audit’s mission.”

More specifically, the 10 core principles for the professional practice of internal auditing are:

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement

Based on their interaction with the internal audit function (IAF) and internal auditors of the organisation, AC members should regularly consider whether the IAF and internal auditors are demonstrating all 10 core principles and are accordingly as effective as they can be.

#### International Standards for the Professional Practice of Internal Auditing (the Standards)

In the evaluation of an IAF and the internal auditors, AC members need to note that internal auditors must conform to the Standards. According to the IIA SA, the “Standards are principle-focused and provide a framework for performing and promoting internal auditing. AC members should at a minimum have an awareness of the Standards applicable to internal auditors and also take note of the different types of Standards that apply to an IAF and internal auditors.

“More specifically, AC members should be aware that the Standards are mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organizational and individual levels;
- Interpretations, which clarify terms or concepts within the statements;
- Glossary terms.”

Furthermore, the Standards comprise two main categories, namely Attribute and Performance Standards. Attribute Standards detail the qualities, characteristics, traits and quality assurance processes that should be embedded within an audit activity and its members. Attribute Standards will determine the effectiveness of an audit function.

Performance Standards describe the manner in which an IAF should be managed and provide detail of the internal processes and procedures that should be implemented to ensure that an adequate, accountable and value-driven audit function is maintained. Performance Standards effectively provide internal auditors with quality criteria against which the performance of their overall internal audit services can be measured. The Performance Standards specifically address:

- Managing the IAF
- The nature of work
- Engagement planning
- Performing the engagement
- Communicating results
- Monitoring progress, and
- Communicating the acceptance of risks

## Attribute and Performance Standards apply to all services provided by an internal audit activity.

In addition to the Attribute and Performance Standards, there are also Implementation Standards, which expand upon the Attribute and Performance Standards by further elaborating on how to implement the Standards as applicable to the two primary types of primary audit services, namely assurance and consulting services.

- Assurance services involve the internal auditor's objective assessment of evidence to provide opinions or conclusions regarding an organisation, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor.
- Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client.

Concluding on the Standards applicable to internal auditors, AC members need to note that although the Standards sometimes appear broad and open to interpretation, this is purposeful. The Standards apply to internal auditors who provide their services in a variety of industries and economic sectors and the wording of the Standards purposefully allows for interpretation in some instances so as to allow internal auditors to carefully consider the Standards in the context of their organisational and operational environment.

## Code of Ethics

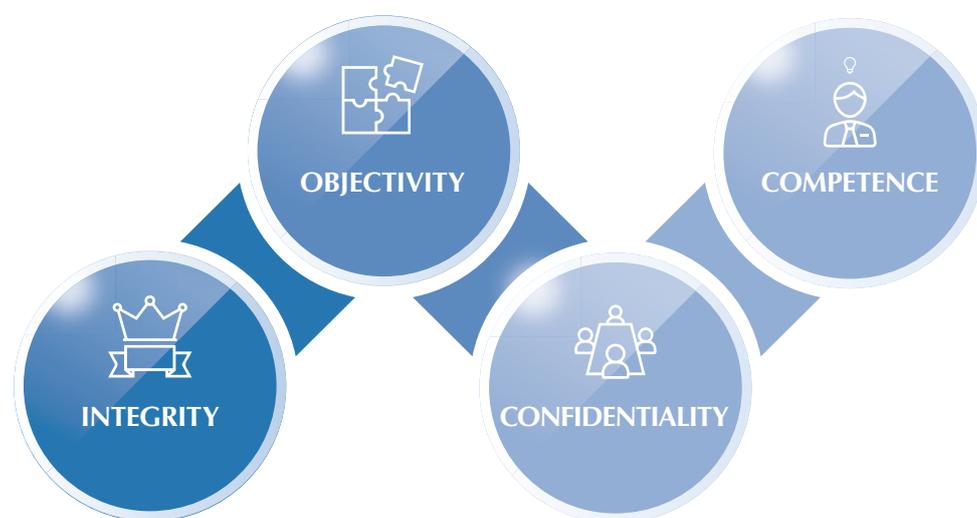
The Code of Ethics is applicable to all internal auditors who are members of the IIA SA. As such, it is important that AC members confirm that internal auditors who serve within their respective entities' IAFs are members of the IIA SA, as this is the only way internal auditors can be held accountable against the Code of Ethics.

The IIA SA (2019) defines the Code of Ethics as "principles and expectations governing the behaviour of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioural expectations rather than specific activities." Furthermore, it states that the purpose of the Code of Ethics is to "promote an ethical culture in the profession of internal auditing".

Of importance to AC members is the fact that the Code of Ethics extends beyond the definition of internal auditing to include two essential components:

- Principles that are relevant to the profession and practice of internal auditing
- Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors

Lastly, with reference to the principles, AC members should be aware that there are four principles that internal auditors are expected to uphold and apply, namely:



## List of Abbreviations

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<b>AC</b>	Audit Committee
<b>CAE</b>	Chief Audit Executive
<b>FMPPLA</b>	Financial Management of Parliament and Provincial Legislatures Act
<b>IAF</b>	Internal Audit Function
<b>IIA SA</b>	Institute of Internal Auditors South Africa
<b>IPPF</b>	International Professional Practices Framework
<b>MFMA</b>	Municipal Finance Management Act
<b>PFMA</b>	Public Finance Management Act
<b>PSACF</b>	Public Sector Audit Committee Forum
<b>TR</b>	Treasury Regulations

## Example of an Audit Committee Evaluation of IAF

This serves only as an example of an evaluation form for consideration by the Audit Committee.

\*This example was taken from the 2015 PSACF paper: Evaluation of an Internal Audit Function

Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	N/A	Comments
<b>Understanding of role and responsibilities</b>							
<b>1. Internal audit demonstrates that it:</b>							
• Recognises its direct reporting responsibility to the audit committee.							
• Has a firm understanding of the responsibilities and operation of the audit committee, which guides its reporting and interaction with the audit committee.							
• Understands the organisation's business, governance processes, risk environment and internal control framework.							
• Understands its role in the combined assurance model.							
• Coordinates the internal audit plan with that of the external auditors where applicable.							
<b>2. Internal audit's processes are flexible and dynamic in addressing emerging business, operational, compliance, sustainability and assurance needs.</b>							
<b>Charter, structure and positioning</b>							
<b>3. Internal audit operates in terms of a formally defined and approved internal audit charter.</b>							
<b>4. The internal audit charter is reviewed regularly (at least every year).</b>							
<b>5. Internal audit's mandate meets the organisation's current needs.</b>							
<b>6. The internal audit charter is accessible to everyone in the organisation.</b>							
<b>7. Internal audit is (and is perceived to be) independent from management.</b>							
<b>8. The structure, composition and resources of internal audit facilitates:</b>							
• Consistency in the quality of service to the organisation.							
• Understanding of the organisation's business issues.							
<b>9. Internal audit is strategically positioned to achieve its objectives, i.e., it has appropriate status in the organisation evidenced by the following:</b>							
• The CAE has a standing invitation to attend all audit committee meetings.							
• The CAE has direct access to the chairperson of the audit committee.							

Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	N/A	Comments
• The CAE reports functionally to the audit committee.							
• The CAE has a standing invitation to attend executive committee meetings, but is not a member of the executive team.							
• The CAE is appraised formally of the organisation's strategy and performance, through meetings with the chairperson and/or CEO/Accounting Officer and management.							
<b>10. There is sufficient interaction between the audit committee and internal audit, to ensure alignment and coordination with other assurance providers to minimise duplication of efforts.</b>							
<b>Skills and experiences</b>							
<b>11. Internal audit's resources match its role and responsibilities.</b>							
<b>12. On the basis of the work performed by internal audit over the past 12 months, internal audit appears to have the right staff mix and competencies in specialist areas, e.g., IT and treasury and it has the necessary geographical coverage.</b>							
<b>13. The internal audit team has a suitable programme of continuing education in place.</b>							
<b>14. The CAE maintains a Quality Assurance and Improvement Programme (QAIP) covering all aspects of the internal audit function.</b>							
<b>15. Quality assurance review (QAR) performed in the last 5 years.</b>							
<b>Relationship with the audit committee</b>							
<b>16. The CAE attends all the audit committee meetings he/she was invited to attend.</b>							
<b>17. The CAE makes him/herself available for consultation outside of audit committee meetings.</b>							
<b>18. The CAE expresses his/her views in an open manner to the audit committee.</b>							
<b>19. The CAE is able to handle difficult or contentious issues.</b>							
<b>20. Internal audit is responsive to requests from the audit committee, including requests for special investigations.</b>							

Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	N/A	Comments
21. Internal audit reports are of an acceptable quality and are relevant and useful to the audit committee.							
22. Internal audit reports are received timeously by the audit committee.							
<b>Performance and audit plan</b>							
23. The internal audit plan and changes there to are submitted to the audit committee for approval prior to the commencement of the financial year.							
<b>24. The internal audit plan takes the form of an assessment of the risks and opportunities facing the organisation, and:</b>							
• Aligns with the organisation's risk assessment process.							
• Focuses on providing an assessment of the organisation's control environment.							
• Takes cognisance of industry relevant emerging issues.							
• Has regard to the adequacy of resources and skills available to the CAE to execute the plan.							
25. There was evidence of effective coordination of internal and external audit plans to ensure combined assurance.							
<b>26. Based on reports to the audit committee, internal audit:</b>							
• Delivers the services outlined in the plan.							
• Delivers the services in accordance with the agreed timetable.							
• Operates within budget.							
27. Internal audit evaluates the organisation's governance processes, including ethics and provides a source of information, as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities.							
28. Internal audit provides an objective assessment of the effectiveness of the risk management and internal control framework.							
29. Internal audit provides a systematic analysis and evaluates business processes and associated controls.							
30. Internal audit provides a written assessment to the board of the effectiveness of the organisation's system of internal control and risk management.							
31. Internal audit provides a written assessment of the effectiveness of the system of internal financial controls to the audit committee.							







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