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முகாமைத்துவ கணக்காய்வுத் திணைக்களம்

DEPARTMENT OF MANAGEMENT AUDIT

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Ministry of Finance and Planning
The Secretariat, Colombo 01.

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2009-10-07

Management Audit Circular Number DMA/2009(3)

Secretaries to the Ministries,
Chief Secretaries of the Provincial Councils,
Heads of Government Departments and Statuary Boards,

Internal Auditing Standards and Code of Ethics

General guidelines for Internal Auditing in public organizations have already been introduced by the Management Audit Circular Number DMA/2009(1). Internal Audit guidelines for recording and internal control of public assets, as well, have been issued by the Management Audit Circular Number DMA/2009(2).

The attention of the Department of Management Audit has been focused on strengthening the internal audit function, which is a necessary feature of a strong public financial system. The departments wishes to contribute in developing the professional skills of public officers who are engaged in internal audit activities, so that they could produce high quality outputs.

As a yet another step of this exercise, in consistent with the global trends in this subject area, a Code of Ethics for public internal audit officers and a set of Professional Standards for Public Internal Audit Function is hereby introduced as Appendix 1 and Appendix 2 of this circular. The parliamentary Committees of Public Enterprises and Public Accounts have highlighted the weaknesses of Internal Auditing in many occasions. We kindly request you to instruct the internal audit officers of all organizations under your purview to study these ethics and standards and make use of them as a step in raising the professional level of their internal audit activities.

Sgd. P.M. Pius Fernando
Director General of Management Audit
For the Secretary to the Ministry of Finance and Planning

Copy : Auditor General

Appendix 1

CODE OF ETHICS FOR INTERNAL AUDITING FOR PUBLIC SECTOR ORGANIZATIONS OF SRI LANKA

Introduction

The purpose of this Code of Ethics is to promote an ethical culture in the profession of internal auditing a code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control, and governance.

The Code of Ethics includes two essential components:

1. Principles that is relevant to the profession and practice of internal auditing;
2. Rules of Conduct that describe behavior norms expected of internal auditors.

Principles

Internal auditors are expected to apply the following principles:

Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.

Rules of Conduct

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

Internal auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal auditing services in accordance with the Standards for the Internal Auditing.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

Appendix 2

INTERNAL AUDITING STANDARDS FOR PUBLIC SECTOR ORGANIZATIONS OF SRI LANKA

SUMMARY

ATTRIBUTE STANDARDS

- 1000—Purpose, Authority, and Responsibility
- 1100—Independence and Objectivity
- 1200—Proficiency and Due Professional Care
- 1300—Quality Assurance and Improvement Program

PERFORMANCE STANDARDS

- 2000—Managing the Internal Audit Activity
- 2100—Nature of Work
- 2200—Engagement Planning
- 2300—Performing the Engagement
- 2400—Communicating Results
- 2500—Monitoring Progress
- 2600—Resolution of Management’s Acceptance of Risks
- 2700—Audit working papers

DETAILS

1000—Purpose, Authority, and Responsibility

- 1000 -The general purpose, authority, and responsibility of public sector internal audit activity has been formerly defined in the Financial Regulations of the Government of Sri Lanka (FR). Special internal audit activities to be conducted by each internal audit unit should be formally defined in a charter, consistent with these standards, and approved by the Chief Accounting Officer / Accounting Officer (CAO / AO).
 - 1000. A1—The nature of special assurance services provided to the organization should be defined in the audit charter under the mandate given in the FR.
 - 1000. C1—The nature of any consulting services also should be defined in the audit charter.

1100—Independence and Objectivity

- 1100—Independence and Objectivity - The internal audit activity should be independent, and internal auditors should be objective in performing their work.
- 1110—Organizational Independence - The chief internal auditor should report to a level CAO or AO within the organization that allows the internal audit activity to fulfill its responsibilities.
 - 1110.A1—The internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results.
- 1120—Individual Objectivity - Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest.
- 1130—Impairments to Independence or Objectivity - If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed. The nature of the disclosure will depend upon the impairment.
 - 1130.A1—Internal auditors should refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal

auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

- 1130.A2—Assurance engagements for functions over which the chief Internal Auditor has responsibility should be overseen by CAO/AO/DGMA.
- 1130.C1—Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.
- 1130.C2—If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure should be made to the CAO/AO prior to accepting the engagement.

1200—Proficiency and Due Professional Care

- 1200—Engagements should be performed with proficiency and due professional care.
- 1210—Proficiency - Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.
 - 1210.A1—The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.
 - 1210.A2—Internal auditors should have knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal audit or whose primary responsibility is information technology auditing.
 - 1210.A3—The chief Internal Auditor should obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.
 - 1210.C1—The chief Internal Auditor should decline the consulting engagement or obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.
- 1220—Due Professional Care - Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.
 - 1220.A1—The internal auditor should exercise due professional care by considering the:
 - Extent of work needed to achieve the engagement’s objectives.
 - Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
 - Adequacy and effectiveness of risk management, control, and governance processes.
 - Probability of significant errors, irregularities, or Noncompliance.
 - Cost of assurance in relation to potential benefits.
 - 1220.A2—In exercising due professional care the internal auditor should consider the use of computer-assisted audit tools and other data analysis techniques.
 - 1220.A3—The internal auditor should be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.
 - 1220.C1—The internal auditor should exercise due professional care during a consulting engagement by considering the:
 - Needs and expectations of CAO/AO, including the nature, timing, and communication of engagement results.

- Relative complexity and extent of work needed to achieve the engagement’s objectives.
 - Cost of the consulting engagement in relation to potential benefits.
- 1230—Continuing Professional Development - Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development.

1300—Quality Assurance and Improvement Program

- 1300—Quality Assurance and Improvement Program - The chief Internal Auditor should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness.
- This program includes periodic internal and external quality assessments and ongoing internal monitoring. Each part of the program should be designed to help the internal auditing activity add value and improve the organization’s operations and to provide assurance that the internal audit activity is in conformity with the Standards and Ethics.
- 1310—Quality Program Assessments - The internal audit activity should adopt a process to monitor and assess the overall effectiveness of the quality program. The process should include both internal and external assessments.
- 1311—Internal Assessments - Internal assessments should include:
 - Ongoing reviews of the performance of the internal audit activity; and
 - Periodic reviews performed through self-assessment or by other persons within the organization, with knowledge of internal audit practices and the Standards.
- 1312—External Assessments - External assessments, such as quality assurance reviews, should be conducted at least once every two years by DGMA
- 1320—Reporting on the Quality Program - The chief Internal Auditor should communicate the results of external assessments to the CAO / AO.
- 1330—Use of “Conducted in Accordance with the Standards” - Internal auditors are encouraged to report that their activities are “conducted in accordance with the Government Internal Auditing Standards. However, internal auditors may use the statement only if assessments of the quality improvement program demonstrate that the internal audit activity is in compliance with the Standards.
- 1340—Disclosure of Noncompliance - Although the internal audit activity should achieve full compliance with the Standards and internal auditors with the Code of Ethics, there may be instances in which full compliance is not achieved. When noncompliance impacts the overall scope or operation of the internal audit activity, disclosure should be made to senior management and the CAO / AO.

PERFORMANCE STANDARDS

2000—Managing the Internal Audit Activity

- 2000—Managing the Internal Audit Activity - The chief internal auditor should effectively manage the internal audit activity to ensure it adds value to the organization.
- 2010—Planning - The chief internal auditor should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization’s goals.
 - 2010.A1—The internal audit activity’s plan of engagements should be based on a risk assessment, undertaken at least annually. The input of senior management and the AMC should be considered in this process.
 - 2010.C1—The chief internal auditor should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value, and improve the organization’s operations. Those engagements that have been accepted should be included in the plan.

- 2020—Communication and Approval - The chief internal auditor should communicate the internal audit activity's plans and resource requirements, including significant interim changes, CAO / AO for review and approval. The chief internal auditor should also communicate the impact of resource limitations.
- 2030—Resource Management - The chief internal auditor should ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
- 2040—Policies and Procedures
- The chief internal auditor should establish procedures to guide the internal audit activity.
- 2050—Coordination
- The chief internal auditor should coordinate activities with other external providers of relevant assurance to ensure proper coverage and minimize duplication of efforts.
- 2060—Reporting to the Board and Senior Management
- The chief internal auditor should report periodically to the CAO / AO on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting should also include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the CAO

2100—Nature of Work

- 2100—Nature of Work - The internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach.
- 2110—Risk Management - The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.
 - 2110.A1—The internal audit activity should monitor and evaluate the effectiveness of the organization's risk management system.
 - 2110.A2—The internal audit activity should evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations.
 - Safeguarding of assets.
 - Compliance with laws, regulations, and contracts.
 -
 - 2110.C1—During consulting engagements, internal auditors should address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.
 - 2110.C2—Internal auditors should incorporate knowledge of risks gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.
- 2120—Control - The internal audit activity should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.
 - 2120.A1—Based on the results of the risk assessment, the internal audit activity should evaluate the adequacy and effectiveness of controls encompassing the organization's governance, operations, and information systems. This should include:
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations.

- Safeguarding of assets.
 - Compliance with laws, regulations, and contracts.
- 2120.A2—Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization.
- 2120.A3—Internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.
- 2120.A4—Adequate criteria are needed to evaluate controls. Internal auditors should ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors should use such criteria in their evaluation. If inadequate, internal auditors should work with management to develop appropriate evaluation criteria.
- 2120.C1—During consulting engagements, internal auditors should address controls consistent with the engagement’s objectives and be alert to the existence of any significant control weaknesses.
- 2120.C2—Internal auditors should incorporate knowledge of controls gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

2130—Governance

- The internal audit activity should assess and make appropriate proposals for improving the governance process in its accomplishment of the following objectives:
 - Promoting appropriate ethics and values within the organization.
 - Ensuring effective organizational performance management and accountability.
 - Effectively communicating risk and control information to appropriate areas of the organization.
 - Effectively coordinating the activities of and communicating information among the external and internal auditors and management.
- 2130.A1—The internal audit activity should evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs and activities.
- 2130.C1—Consulting engagement objectives should be consistent with the overall values and goals of the organization.

2200—Engagement Planning

- 2200—Internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing and resource allocations.
- 2201—**Planning Considerations** - In planning the engagement, internal auditors should consider:
 - The objectives of the activity being reviewed and the means by which the activity controls its performance.
 - 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.
 - The adequacy and effectiveness of the activity’s risk management and control systems compared to a relevant control framework or model.
 - The opportunities for making significant improvements to the activity’s risk management and control systems.
 - 2201.C1—Internal auditors should establish an understanding with consulting engagement CAO/AOs about objectives, scope, respective responsibilities and expectations. For significant engagements, this understanding should be documented.

- **2210—Engagement Objectives** - Objectives should be established for each engagement.
 - 2210.A1—Internal auditors should conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives should reflect the results of this assessment.
 - 2210.A2—The internal auditor should consider the probability of significant errors, irregularities, noncompliance, and other exposures when developing the engagement objectives.
 - 2210.C1—Consulting engagement objectives should address risks, controls, and governance processes.
- **2220—Engagement Scope** - The established scope should be sufficient to satisfy the objectives of the engagement.
 - 2220.A1—The scope of the engagement should include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.
 - 2220.C1—In performing consulting engagements, internal auditors should ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations should be discussed with the CAO/AO to determine whether to continue with the engagement
- **2230—Engagement Resource Allocation-**
 - Internal auditors should determine appropriate resources to achieve engagement objectives.
 - Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.
- **2240—Engagement Work Program** - Internal auditors should develop work programs that achieve the engagement objectives. These work programs should be recorded.
 - 2240.A1—Work programs should establish the procedures for identifying, analyzing, evaluating, and recording information during the engagement. The work program should be approved prior to its implementation, and any adjustments approved promptly.
 - 2240.C1—Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement

2300—Performing the Engagement

- **2300—Performing the Engagement** - Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement’s objectives.
- **2310—Identifying Information** - Internal auditors should identify sufficient, reliable, relevant, and useful information to achieve the engagement’s objectives.
- **2320—Analysis and Evaluation** - Internal auditors should base conclusions and engagement results on appropriate analyses and evaluations.
- **2330—Recording Information** - Internal auditors should record relevant information to support the conclusions and engagement results.
 - 2330.A1—The Chief Internal Auditor should control access to engagement records. The chief internal auditor should obtain the approval of CAO/AO prior to releasing such records to external parties, as appropriate.
 - 2330.A2—The Chief Internal Auditor should develop retention requirements for engagement records. These retention requirements should be consistent with the organization’s guidelines and any pertinent regulatory or other requirements.

- 2330.C1—The Chief Internal Auditor should develop policies governing the custody and retention of engagement records, as well as their release to internal and external parties. These policies should be consistent with the Establishment Code, Financial Regulation, organization’s guidelines and any pertinent regulatory or other requirements.
- 2340—Engagement Supervision
- Engagements should be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

2400—Communicating Results

- 2400—Communicating Results - Internal auditors should communicate the engagement results.
- 2410—Criteria for Communicating - Communications should include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.
 - 2410.A1—Internal Audit report should express the overall opinion on the activities audited.
- 2420—Quality of Communications - Communications should be accurate, objective, clear, concise, constructive, complete, and timely.
- 2421—Errors and Omissions - If a final communication contains a significant error or omission, the chief internal auditor should communicate corrected information to all parties who received the original communication.
- 2430—Disclosure of Noncompliance with the Standards - When noncompliance with the Standards impacts a specific engagement, communication of the results should disclose the:
 - Standard(s) with which full compliance was not achieved,
 - Reason(s) for noncompliance, and
 - Impact of noncompliance on the engagement.
- 2440—Disseminating Results - The chief internal auditor should communicate results to the appropriate parties.
 - 2440.A1—The chief internal auditor is responsible for communicating the final results to parties who can ensure that the results are given due consideration.
 - 2440.C1—The chief internal auditor is responsible for communicating the final results of consulting engagements to CAO/AOs.
 - 2440.C2—During consulting engagements, risk management, control, and governance issues may be identified. Whenever these issues are significant to the organization, they should be communicated to senior management and the board.

2500—Monitoring Progress

- 2500—Monitoring Progress - The chief internal auditor should establish and maintain a system to monitor the disposition of results communicated to management.
 - 2500.A1—The chief internal auditor should establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
 - 2500.C1—The internal audit activity should monitor the disposition of results of consulting engagements to the extent agreed upon with the CAO/AO.

2600—Resolution of Management’s Acceptance of Risks

- 2600—When the chief internal auditor believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief internal auditor should discuss

the matter with senior management. If the decision regarding residual risk is not resolved, the chief internal auditor and senior management should report the matter to the CAO/AO.

2700 - Audit Working Papers

2710 - Requirement to maintain Audit Files - An auditor must be able to produce audit evidence to support his report.

2720 - Types of files should be maintained.

- Permanent File;
 - Control File; and
 - Current Audit (Working Papers) File.
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- 2720 A1 - Permanent File - All permanent, back ground data on the audit entity, Organization Chart, Code of conduct Annual estimates , Final accounts, Action plan, Procurement plan, Performance Reports and Management letter are permanent type documents to be filed in this file.
 - 2720 A2 - Control File – The documents need to control the internal auditing should be in this file. Three year Strategic Audit Plan, one year Audit Plan, Internal Audit Programmes, Internal audit Guidelines and Code of conduct of audit Staff etc. are control type of documents.
 - 2720 A3 - Current Audit (Working Papers) File - For each audit engagement or each year of audit, current audit files should be maintained. As jobs are completed the relevant working papers should be placed in the file with fronted by a copy of the job control or audit program. When the audit is completed file should be handed over to the senior audit officer to review.

2730 - Validity of the Working Papers – Working Papers are used as written evidence to prove audit findings. Identity of the working papers should be ensured with the signatures of the relevant officers.

Definitions

The following are the definitions of the words and shorten forms used in the ethics and standards herewith.

Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Auditor

Internal Auditor is a person authorized by the organization for conducting Internal Audit.

Chief Internal Auditor

The person appointed by the organization as the head of the officers authorized for conducting Internal Audit. With regard to government ministries and departments Management Audit Circular DMA/2009(1) is relevant.

Chief Accounting Officer

Person appointed as the Chief Accounting Officer according to the Financial Regulations of the government of Sri Lanka. With regard to statutory bodies the secretary to the line ministry or any other officer specified by the statute.

Accounting Officer

Person appointed as the Accounting Officer according to the Financial Regulations of the government of Sri Lanka. With regard to statutory bodies Accounting Officer could be the Chairman, Managing Director or Chief Executive Officer as specified by the relevant statute.