



## Guidance on the Advisory Role of Internal Audit in the Public Sector

**November 2024**

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# Contents

Abbreviations .....	3
Acknowledgements .....	4
What are PEMPAL and IACOP? .....	5
Preface .....	7
Executive Summary .....	8
<b>Introduction .....</b>	<b>9</b>
<b>What are advisory services? .....</b>	<b>10</b>
<b>Why is internal audit a good source of advisory services? .....</b>	<b>13</b>
<b>What type of advisory services can internal audit provide? .....</b>	<b>14</b>
<b>What are stakeholder expectations of advisory services? .....</b>	<b>17</b>
<b>How is objectivity and independence maintained in advisory services? ..</b>	<b>21</b>
<b>What competencies are needed for advisory engagements? .....</b>	<b>25</b>
<b>How are advisory engagements selected and planned? .....</b>	<b>27</b>
<b>What is the right balance between advisory and assurance services? .....</b>	<b>28</b>
<b>Can internal audit turn an advisory engagement into an assurance engagement? .....</b>	<b>32</b>
<b>Are there common processes for carrying out advisory engagements? ...</b>	<b>33</b>
<b>How should internal audit report on advisory engagements? .....</b>	<b>34</b>
<b>How do relationships differ when carrying out assurance and advisory assignments? .....</b>	<b>35</b>

<b>What is the central harmonization unit's role in supporting advisory services? .....</b>	<b>37</b>
Annex 1. Assessment of pilot implementation of electronic document management .....	40
Annex 2. Improving Corporate Governance of the National Citizenship Registration Authority .....	46
Annex 3. Examples of Internal Audit Advisory Reports .....	50

# Abbreviations

<b>CHU</b>	Central Harmonization Unit
<b>e-DMS</b>	Electronic Document Management System
<b>ERM</b>	Enterprise Risk Management
<b>IA</b>	Internal Audit
<b>IACOP</b>	Internal Audit Community of Practice
<b>IIA</b>	Institute of Internal Auditors
<b>IT</b>	Information Technology
<b>NCRA</b>	National Citizenship Registration Authority
<b>PEMPAL</b>	Public Expenditure Management Peer Assisted Learning network
<b>SOE</b>	State-Owned Enterprise
<b>SOER</b>	State-Owned Enterprise Regulations

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# What are PEMPAL and IACOP?

The Public Expenditure Management Peer Assisted Learning (PEMPAL) network facilitates the exchange of professional experience and knowledge transfer among public financial management practitioners in countries across the Europe and Central Asia Region. PEMPAL, launched in 2006, aims to contribute to strengthening public financial management practices in member countries through developing and disseminating information on good practices and their application.

PEMPAL organizes around three thematic communities of practice:

- Budget Community of Practice,
- Treasury Community of Practice, and
- Internal Audit Community of Practice (IACOP).

The main overall objective of the IACOP is to support its member countries in establishing modern and effective internal audit systems that meet international standards and good practices, important for good governance and accountability in the public sector.

This document is one in a series of IACOP knowledge products available from [www.pempal.org](http://www.pempal.org). Others include:

- Good Practice Internal Audit Manual Template
- Good Practice Continuing Professional Development Manual Template
- Internal Audit Body of Knowledge
- Risk Assessment in Audit Planning
- IACOP Concept Paper on Cooperation Among Public Sector Audit and Financial Inspection Entities

- Quality Assessment and Improvement Guide for Public Sector Internal Audit. A Toolkit for Quality Improvement
- PEMPAL Guidance on Internal Audit: Demonstrating and Measuring Added Value
- Key Performance Indicators for Internal Audit Function
- The Impact of COVID-19 on the Role and Activities of Internal Audit
- Assessing the Effectiveness of Internal Control: PEMPAL Guidance for Public Sector Internal Auditors
- PEMPAL IACOP Glossary of Terms: Internal Control
- Guidance on Monitoring of the Internal Audit Function by the Central Harmonization Unit
- IT audit. Practical Guidance for Internal Auditors in the Public Sector
- Audit Committees in the Public Sector
- Digital Platform for Public Internal Control and Internal Audit Monitoring and Reporting
- Guidance for Planning the Internal Audit Engagement



# Preface

For over 25 years the Institute of Internal Auditors (IIA) has defined internal audit as an activity that provides both assurance and advisory services. The advisory role has been a significant feature of internal audit in developed countries for many years, even before its inclusion in the IIA definition. Advisory services are often viewed as an important way to add value to the organization by improving risk management.

This is particularly important at a time when the world is facing new risks: the COVID-19 pandemic, cyber-attacks, data theft, and extreme weather conditions all point to a changing risk landscape. Some commentators see this as a once in a generation chance for internal audit to become indispensable to the organization, clearly demonstrating its value in terms of providing insights and foresight to management.

However, many PEMPAL countries are struggling to expand the role of internal audit beyond the provision of assurance services. There is also a paradox here. What many PEMPAL public administrations need most from internal audit is advice on how best to create strong risk management and internal control systems. However, what they often get is criticism from internal audit assurance work that these systems are lacking and need to be developed.

This paper provides guidance on the advisory elements of the work of internal audit and how it can be effectively used in PEMPAL member countries.



# Executive Summary

This guidance aims to help internal auditors in PEMPAL countries to better understand their role in providing advisory services to public sector entities. It is based on presentations and discussions among practitioners and international experts during PEMPAL meetings and incorporates the requirements of the Global Internal Audit Standards issued by the IIA, effective from January 9, 2025.

The guidance outlines the different types of advisory services, the rationale behind internal audit being a valuable source of advisory support, and stakeholder expectations regarding these services. It also clarifies the boundaries of internal audit's advisory work.

It provides insights into how advisory engagements are selected, planned, and reported, as well as how relationships differ when carrying out assurance versus advisory assignments.

Finally, the guidance discusses the role of the central harmonization unit (CHU) in supporting advisory services.



# Introduction

PEMPAL discussions on the advisory role of internal audit, including at an IACOP plenary session in June 2021 and a meeting in Tirana in June 2023, raised many questions from participants. These included:

- What is the right balance between assurance and advisory services?
- How can we avoid conflicts of interests?
- What skills are needed for advisory work?
- What are the expectations of management and audit committees for such work?
- What is the role of the CHU in promoting this work?

The IACOP Audit in Practice Working Group focused on addressing some of these questions. Using the presentations and inputs of international experts and practitioners from PEMPAL countries and beyond, it examined the advisory role from the different perspectives of internal auditors, public sector managers, audit committees, and the CHUs established in most PEMPAL countries to promote the development of internal audit.

This guidance draws together the Working Group findings and the good practice that emerged from discussions. It also addresses the requirements of the Global Internal Audit Standards issued by the IIA in January 2024 and applicable from January 9, 2025.



# What are advisory services?

The IIA highlights<sup>1</sup> that internal audit functions in the public sector are “often mandated to focus on the provision of the following types of services:

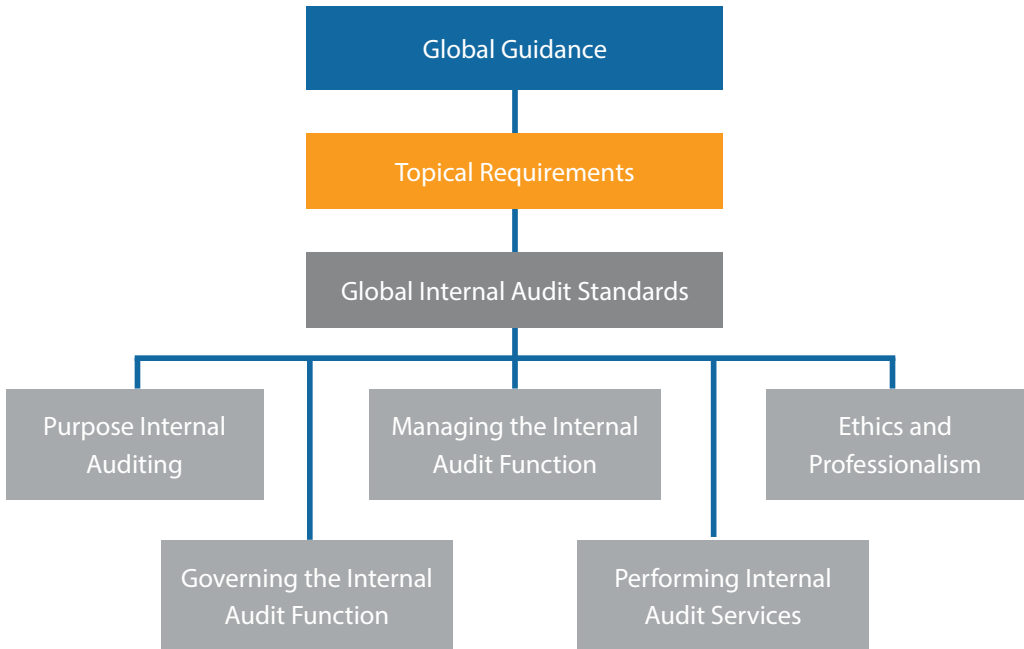
- Ensuring compliance with laws and regulations.
- Identifying opportunities for improving the efficiency, economy, and effectiveness of government programs.
- Determining whether public resources are adequately safeguarded and used appropriately to provide services in an equitable manner.
- Assessing whether an organization’s performance aligns with its strategic objectives and goals.”

The provision of advice is a key part of the mandate of internal audit. Advisory services are “services through which internal auditors provide advice to an organization’s stakeholders. The nature and scope of advisory services are subject to agreement with relevant stakeholders. Examples include advice on the development and implementation of new policies, processes, systems, and products; providing forensic services; providing training; and facilitating discussions about risks and controls.”<sup>2</sup>

Advisory services feature prominently in the definition, mission, and core principles outlined in the IIA’s International Professional Practices Framework, see **Figure 1** below.

<sup>1</sup> IIA Global Internal Audit Standards, 2024 “Applying the Global Internal Audit Standards in the Public Sector”

<sup>2</sup> IIA Global Internal Audit Standards, 2024, Glossary

**Figure 1. The IIA International Professional Practices Framework**

Source: The IIA

The IIA Global Internal Audit Standards, 2024, include the following references to the advisory role:

- Internal audit is defined as “an independent, objective assurance and **advisory service** 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.” [*Glossary*]
- The purpose of internal audit is to “strengthen the organization’s ability to create, protect, and sustain value by providing the board and management with independent, risk based, and objective assurance, **advice, insight, and foresight.**” [*Domain I Purpose of Internal Auditing*]
- Internal audit may “initiate advisory services or perform them at the request of the board, senior management, or the management of an activity.” [*Domain V Performing Internal Audit Services*]

- In an assurance engagement the scope and objectives of the audit are determined by the internal audit unit. However, for an advisory engagement the objectives and scope “are typically jointly established by internal auditors and the management of the activity under review.” [*Standard 13.3 Engagement Objectives and Scope*] Further, for advisory services a formal documented risk assessment and identification of evaluation criteria may not be necessary, depending on agreement with stakeholders. [*Standards 13.2 Engagement Risk Assessment and 13.4 Evaluation Criteria*]



# Why is internal audit a good source of advisory services?

Internal audit units are a good source of advisory services due to their broad and deep knowledge of the organization, including organizational policies, procedures, processes, and systems, their independence and objectivity, and their fulsome knowledge of risk management, control, and governance processes. In addition, internal auditors are intimately familiar with the laws and regulations that the organization is subject to.

A primary role of internal audit is providing independent and objective assurance regarding the way that risk management, control, and governance processes are operating. To fulfill this, internal audit typically develops a wider view and understanding of these processes than most managers working inside an organization. Internal auditors therefore often have skills and expertise that are not otherwise available to management.

Internal auditors also gather specific information and knowledge of subject areas by carrying out assurance engagements. This knowledge too can be valuable to management.

In countries with a centralized internal audit unit, this can act as a hub of expert knowledge that can leverage audit work completed in one organization to provide advice to other internal audit clients across different ministries.



# What type of advisory services can internal audit provide?

Internal audit advisory services can be grouped into the following types of engagements:

- i. Advising on the development and implementation of new policies, processes, systems, and products.
- ii. Providing forensic services.
- iii. Providing training.
- iv. Facilitating discussions about risks and controls.

It is important to note that in an advisory engagement, internal auditors do not provide any assurance and should not take on management's responsibilities.

The internal audit unit may be asked to review one or more areas of the organization's business operations, including changes brought about by the introduction of new policies, systems, products, etc. The auditor carries out the review and provides management with recommendations (for examples, see Annexes 1 and 2). Some illustrations of this role include:

- Internal audit is asked to review the recent implementation of the organization's business continuity plan and provide recommendations to improve its governance.
- Internal audit benchmarks the organization's new privacy policy against regulatory requirements and provides recommendations to improve alignment.



- Internal audit is asked to review the impact of a proposed reorganization on internal control activities, such as through the introduction of an organization's resource planning system. Internal audit identifies the main or key controls that are impacted by the reorganization and presents its report to management.

Internal audit may be requested to support forensic investigations through data collection, analysis, and interpretation, such as by reviewing project or program financial statements to report on indicators of fraud or funding abuse, conduct root cause analysis, monitor a whistleblower hotline, etc. However, it is important to ensure that internal auditors have the requisite skills and competencies to perform these roles. In some PEMPAL countries, where the internal audit function is still immature and the full range of appropriate skills may not be available, these kind of requests may be better handled by a financial inspection entity/function with a mandate to work on cases of possible frauds and major irregularities, if one exists (please refer to the IACOP Concept Paper on Cooperation Among Public Sector Audit and Financial Inspection Entities).<sup>3</sup>

Internal audit may act as a facilitator and trainer. This does not involve any reviewing or reporting on the work of the organization. Examples of facilitation and training engagements include:

- **Risk Assessment/Internal Control Self-Assessment Workshops:** This is probably the best-known facilitation role of internal audit. Here the auditor facilitates workshops to help management identify and prioritize key risks facing the process or organization and the controls put in place to address these risks.
- **Root Cause Analysis:** Facilitating discussions to analyze the main reasons behind control failures and identify recommendations for improvement.
- **Fraud risk awareness and ethics training, training on risk management and controls, etc.,** at the request of senior management.
- **Benchmarking:** This is a process of collecting comparable data from outside the organization (from peers or even competitors) and using this to identify issues (performance or other) for further investigation. Internal audit can help facilitate meetings to evaluate benchmarking data.

<sup>3</sup> [https://www.pempal.org/sites/pempal/files/IACOP/rifix\\_eng.pdf](https://www.pempal.org/sites/pempal/files/IACOP/rifix_eng.pdf)

In the Flemish government there is a centralized internal audit unit. When this unit identifies a problem in one department that may have ramifications across the whole of government, they are able to produce a general guide for other departments on the problem and how to address it. They have also held independent workshops to discuss or present the results of these audits for the benefit of others.



# What are stakeholder expectations of advisory services?

The four stakeholders of advisory services are management, audit committees, the central harmonization unit, and the internal audit unit and its staff. Each will have their own perspective about this work, which will inevitably give rise to different expectations and incentives (**Figure 2** below).

Perhaps the most important incentive for management is that internal audit can provide the auditee with constructive advice on how to do something rather than simply criticize them for not doing it. Good managers understand that they cannot know everything about their organization and that internal audit can help shine a light on areas of concern.

As a manager I take responsibility for the work of my staff. But I also need advice and assistance from a knowledgeable partner. In my organization, internal audit fulfills this role. I find that I can use internal audit to help me change the culture inside the workplace. They can also act as a doctor when needed to diagnose and help me fix problems before they require major surgery!

— Manager in an international organization<sup>4</sup>

<sup>4</sup> Please note that quotations in this guidance have been edited for clarity where needed.

**Figure 2. Stakeholder Expectations and Incentives**

MANAGEMENT	AUDIT COMMITTEE
<ul style="list-style-type: none"> <li>• Internal audit helps identify and solve problems rather than issuing critical reports</li> <li>• Addresses areas of real concern to managers</li> <li>• Internal audit have competence to do this work</li> </ul>	<ul style="list-style-type: none"> <li>• Work does not negatively impact the required level of assurance work</li> <li>• Internal audit have competence to do this work</li> <li>• Must not drag internal audit into the first or second line of defense</li> </ul>
CENTRAL HARMONIZATION UNIT	INTERNAL AUDIT UNIT/STAFF
<ul style="list-style-type: none"> <li>• Carried out within the established legal framework</li> <li>• There is clarity on when and how advisory engagements are undertaken</li> <li>• There is no threat to the annual plan of assurance work</li> <li>• Internal audit have the competence to do this work</li> </ul>	<ul style="list-style-type: none"> <li>• A shift from criticizer to helper – a feel good factor for the auditor</li> <li>• An opportunity to add value and develop wider expertise</li> <li>• Must not impact objectivity and independence</li> <li>• Management must take responsibility for implementing recommendations</li> </ul>

Some countries reported a significant shift in what managers now expect from internal audit in this area: there is increasing recognition that internal audit can act as a change agent.

Each year we write to managers to seek their ideas on areas where we can carry out advisory work. We are finding that the level of requests for such services is increasing year by year. We now have a new generation of managers who consider internal audit as agents of change.

— Local authority internal audit unit in Moldova

The audit committee will often advocate for internal audit to carry out assurance work because it is the only body in the organization able to provide this type of assurance. The audit committee will want clarity on when and how advisory engagements are carried out and to make sure that advisory work is not undertaken at the expense of planned assurance work.

### New Internal Audit Unit at the Belgium Federal Level

Belgium created a single central internal audit unit with a single audit committee at the federal level in 2015.

From the start there was considerable discussion between internal audit and the audit committee on how advisory work should be carried out. The audit committee wanted the new unit to focus on carrying out assurance work. However, internal audit wanted to also carry out advisory services because they needed to build a relationship of trust with their new clients. This would be easier to do with advisory assignments and it would also prove that internal audit was capable of adding value. Internal audit had also noted that risk maturity levels were low in some federal entities, so it was better to do advisory assignments to improve risk management systems and processes.

Despite audit committee reservations, this worked well. Initially internal audit tended to provide facilitation services (e.g. workshops) to document risk and control matrices. Now, internal audit perform mixed assignments by providing recommendations for improvement based on assurance work. In effect, the delineation between consultancy and assurance work is now not so strict in practice.

**CHUs** set the framework within which advisory engagements are provided. They must recognize and support the training of both auditors and auditees on how this work should be carried out.

CHUs must be kept informed of when and how advisory engagements are undertaken to ensure that these do not result in the transfer of managerial responsibilities to internal audit. There should be no threat to objectivity or planned assurance engagements.

The CHU will also want to ensure that internal audit meets the competency requirements laid down in the standards when undertaking such work. A key checkpoint for the CHU is whether internal audit units have the skills to do the work proposed.

For **the internal audit unit and staff** an important benefit of providing advisory services is that they generate a positive shift in the perception of the auditee, where internal audit is seen as a value-added function instead of a threat. However, internal audit need to have measures in place to safeguard objectivity.

There must be clarity that management is responsible and accountable for taking forward or implementing any advice or recommendations flowing from an advisory engagement. Internal audit's responsibility is to advise, while management's responsibility is to consider and implement recommendations.

There also needs to be a clear process for accepting advisory engagements so that these do not derail the strategic and annual plan of assurance work. Internal audit must always have a voice in accepting advisory engagements.



# How is objectivity and independence maintained in advisory services?

It is important for all internal audit units to determine what type of services they are willing to provide and where they draw the line in terms of remediation work. As noted by the IIA Standards “when performing advisory services, internal auditors are expected to maintain objectivity by not taking on management responsibility. For example, internal auditors may perform advisory services as individual engagements, but if the chief audit executive takes on responsibilities beyond internal auditing, then appropriate safeguards must be implemented to maintain the internal audit unit’s independence.”

*[Domain V Performing Internal Audit Services]*

In particular, internal auditors should not accept any engagement which involves management functions such as strategic or operational decision making, setting the risk appetite for the organization, or preparing financial statements.

Internal audit should robustly manage potential conflicts. First, the regulations should make clear that advisory engagements do not limit the ability for internal audit to carry out assurance audits. Second, the issue should be part of a conversation between internal audit and the client, where the final word lies with the auditor. Often the response to a request for advisory work is not a straight “yes” or “no”, but rather a “maybe with the right kind of safeguards to guarantee independence”.

### **IIA Standard 2.2 Safeguarding Objectivity**

When performing internal audit services:

- Internal auditors must refrain from assessing activities 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 12 months.
- If the internal audit function is to provide assurance services where it had previously performed advisory services, the chief audit executive must confirm that the nature of the advisory services does not impair objectivity and must assign resources such that individual objectivity is managed. Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by an independent party outside the internal audit function.
- If internal auditors are to provide advisory services relating to activities for which they had previous responsibilities, they must disclose potential impairments to the party requesting the services before accepting the engagement.

The European Commission internal audit has two ways of addressing potential conflicts:

- First, they use a cooling off period where there must be one year between an advisory engagement and an assurance audit; and
- Second, they have a process where the manager who supervises an advisory engagement is different from the manager who supervises a subsequent assurance audit in the same area of business.



In principle there is always scope for overlap between advisory engagements and assurance audit. The main question we ask ourselves is whether we are duplicating work or whether the objectives very different. We have found that it can often be easier to extend the scope of assurance work by generating advice through recommendations, because one naturally follows the other.

— Austrian federal level internal audit

In addition, in accordance with IIA *Standard 3.1 Competency*, internal auditors should ensure they have the requisite skills and competencies to perform the advisory engagement. Further, the Internal Audit Charter should reflect the nature and types of advisory engagements the internal audit unit can provide.

There will always be a perceived conflict of interest or threat to objectivity when internal audit carries out advisory work in a part of the business that they may subsequently audit. IIA *Standard 2.2 Safeguarding Objectivity* requires that if the internal audit unit “is to provide assurance services where it had previously provided advisory services, the Chief Audit Executive must confirm that the nature of those services does not impair objectivity and must assign resources such that individual objectivity is managed.”

However, internal audit units should not use this as a shield to avoid doing work that they are competent to do and which will add value to their clients. They should ask what is more important to the organization: that risk management improves with internal audit advice or that internal audit can carry out an audit?

The IIA’s guidance on the role of internal audit concerning enterprise risk management (ERM) provides one example of the acceptable boundaries of internal audit activities. This is represented in **Figure 3** below.

### Figure 3. Internal audit roles in the area of enterprise risk management

#### WHAT INTERNAL AUDIT CAN AND CANNOT DO: AN EXAMPLE IN THE AREA OF ENTERPRISE RISK MANAGEMENT

##### CORE ROLES

- Giving assurance on the risk management processes
- Giving assurance that risks are correctly evaluated
- Evaluating risk management processes
- Evaluating the reporting of key risks
- Reviewing the management of key risks.

##### LEGITIMATE ROLES WITH SAFEGUARDS

- Facilitating the identification and evaluation of risks
- Coaching management in responding to risks
- Coordinating ERM activities
- Consolidated reporting on risks
- Maintaining and developing the ERM framework
- Championing establishment of ERM
- Developing ERM strategies for board approval

##### ROLES INTERNAL AUDIT SHOULD NOT UNDERTAKE

- Setting the risk appetite
- Improving risk management processes
- Management assurance on risks
- Taking decisions on risk responses
- Implementing risk responses on management's behalf
- Accountability for risk management

Source: *The Role of IA in Enterprise Risk Management*. IIA



# What competencies are needed for advisory engagements?

The requirements of IIA *Standard 3.1 Competency* that “internal auditors must possess or obtain the competencies to perform their responsibilities successfully” extend to advisory engagements. Further, internal auditors “must engage in only those services for which they have or can obtain the necessary competencies.” IIA *Standard 3.1 Considerations for Implementation* outlines some of the core competencies internal auditors need to develop, including knowledge that encompasses but is not limited to:

- Governance, risk management, and control
- Communication
- Financial management and information technology
- Pervasive risks such as fraud
- Laws and regulations
- Data analysis tools
- Knowledge of general economic trends and how they impact the audited entity

An internal auditor providing advisory services needs both technical and professional skills; a blend of analytical, interpersonal, and business skills to effectively support organizations in improving their processes, governance, risk management, and internal controls.

The skills needed for advisory engagements will vary depending on the nature of the engagement. An auditor’s general skill set, which includes the ability to

plan and conduct audit procedures and report on them, will be useful for many assignments. However, in many advisory engagements internal auditors will need to deploy a business advisor view to the engagement rather than an audit approach to offer value added practicable insights to management. Therefore, skills such as those related to strategic thinking, collaboration, change management, and effective communication will be of added importance. In all cases, internal auditors must ensure that they have the competence and skill set to deliver on the objectives of the engagement. The knowledge and expertise of the internal auditors involved are critical in providing insights to the auditee and resulting in value to the organization.

### Does internal audit have this knowledge?

Probably not, but this is not a criticism of internal audit because the world is changing so quickly; internal audit cannot know everything.

This underlines the benefits of collaboration and working closely with management on certain issues. Working closely with management helps to develop a common language or terminology of the problem, promotes a common understanding of risks, and results in consistent messaging. Internal audit can begin to understand better what keeps the manager awake at night. Internal audit will win the trust of managers by getting a better understanding of the business and business processes.

— Manager in an international organization

Some internal audit units will obtain skills from outside their audit unit as a means of supplementing their knowledge.

In the **Republic of South Africa**, internal audit units are required to carry out a skills audit each year. This identifies the skills they have and the skills they need. Internal audit also use external experts where necessary.



# How are advisory engagements selected and planned?

In most countries, suggestions for advisory engagements come from the board, senior management, or the management of an activity. Internal audit should develop questions or criteria against which to assess whether to respond positively to these requests. These may include the following:

- **Should this be an assurance engagement?** Is this a major risk to the organization where it is better to have this done as an assurance engagement where internal audit can follow up on recommendations made.
- **Do we have the resources to do this?** Usually, internal audit needs to give priority to assurance audits as these are used to support an overall opinion to management on risk and internal control.
- **Do we have the skills/technical capacity to do this?** This requires an assessment of the skills required and whether these are available from within the internal audit unit.
- **Do we have direct knowledge of the subject to be examined?**
- **Does the advisory engagement fall within the services the internal audit unit can provide as per the Internal Audit Charter?**
- **Does the engagement impair the internal audit unit's independence or objectivity?**



# What is the right balance between advisory and assurance services?

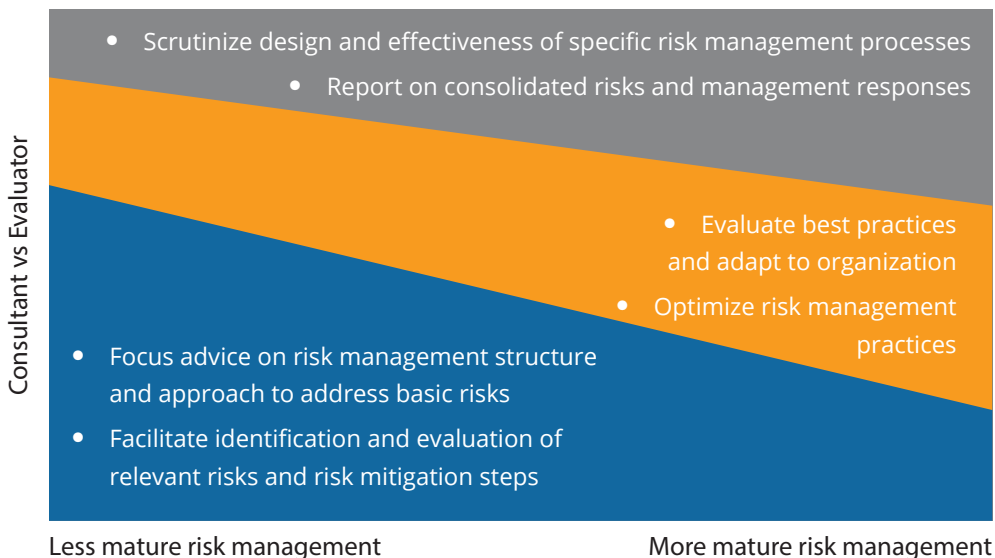
The consensus is that there should be no fixed or target level of advisory work. This is something that depends on the maturity of the organization and its internal audit unit. It is better to consider this on a case-by-case basis.

The level of advisory work depends on the environment and in particular the maturity of governance risk and control mechanisms. The level of advisory work can be self-regulating in a situation where internal audit has to provide an overall opinion on the risks management and internal control system. This is because the objective cannot be achieved without carrying out sufficient assurance work.

— Audit committee chair in a developed country

There is a clear consensus that the balance between advisory and assurance services will be directly related to the maturity of both the internal audit unit and the organization being examined. It will therefore change over time. This is illustrated in a model presented by the IIA (see **Figure 4** below) on how the balance between assurance and advisory services changes based on maturity levels.

**Figure 4. How the maturity of risk management impacts the role of internal audit**



Source: Adapted from IIA Position Paper "Organizational Governance: Guidance for Internal Auditors July 2006"

When organizations are less mature and do not have risk management systems in place, assessing their effectiveness is of little benefit. The focus should be on providing advice on the structures that should be put in place and/or facilitating the identification and evaluation of risks and risk mitigation actions.

In the early days of establishing internal audits in PEMPAL countries, the focus is usually on creating and then carrying out a program of assurance work. Advisory activities are often the last part of the internal audit mandate to be developed, if at all.

The Albanian CHU advises that internal audit units should plan to carry out advisory assignments so long as the actual work undertaken is driven by demand from managers.

IIA *Standard 9.4 Internal Audit Plan* requires the head of internal audit to consider requests for advisory and ad hoc work while developing the internal audit plan. Further, the head of internal audit should revise the internal audit plan, including having it approved by the board, in case of conflicting demands from multiple stakeholders “based on emerging risks and requests to replace assurance engagements with advisory engagements.” Further, IIA *Standard 9.3 Methodologies* requires the head of internal audit to establish methodologies to guide the internal audit function in implementing the internal audit strategy, developing the internal audit plan, and conforming with the standards. This documented methodology should also address determining the right balance between assurance and advisory engagements.

When internal audit is a new function, it is unlikely that managers will ask internal audit to undertake advisory work, partly because internal audit is new, but also because they will not have had time to develop a relationship of trust.

In the **Republic of South Africa**, only 25% of internal audit units are doing advisory work. In general, only mature internal audit units endeavor to do this work. It is acknowledged that internal audit should do this type of work, but needs to be competent to do so.

Many internal audit units reserve time in their annual internal audit plans to carry out assignments that arise during the year. In Hungary, for example, this ad hoc work should be no more than 20% of future plans and can be used for both assurance and advisory engagements. In Belgium, they have a similar approach and keep 10% of resources available for unplanned work.

One option would be planning for 10% of ad hoc work, however, there may be areas of advice that can be planned in advance. For example, internal audit involvement in the IT steering committee for a new system.

— Internal Audit Unit, Port of Antwerp



There will sometimes be requests for advisory work that are not what they seem to be. Examples include:

- Managers suggesting an advisory engagement to protect them from the criticism that would result from an assurance audit.
- Managers seeking internal audit inputs so that they can circumvent legislation (“advice or opinion shopping”).
- Requests that would result in internal audit directly managing risks by assuming management responsibilities.



# Can internal audit turn an advisory engagement into an assurance engagement?

Some chief audit executives are against this in principle because the scope and objectives of these engagements are materially different. Furthermore, there is a significant risk of damaging client relationships. However, other chief audit executives believe that there is no choice in certain circumstances. There are many examples of this happening in practice.

The **European Commission internal audit** immediately switches to carrying out an assurance audit in some circumstances. This significantly impacts client-auditor relationships. The European Commission manages this risk by informing the client upfront that this may happen and what to expect under such circumstances.

The **Austrian Federal internal audit** generates a second (assurance) engagement and reports on these two matters clearly and separately.



# Are there common processes for carrying out advisory engagements?

With a wide variety of advisory activities there are no standard or common processes for carrying out such work. The process to be followed to facilitate an internal control workshop will be very different from the process for recommending a set of new control procedures to address a major risk.

However, there are some common elements applicable to all advisory engagements. These include:

- **Agreement of objectives.** There needs to be clarity on what the client is asking internal audit to do, when they want it to be done, and how the outcome is to be reported. This should be done before any work is undertaken – there should be no surprises. The IIA Standards outline that for advisory engagements the work program should be developed in collaboration with the stakeholders who request the service.
- **Clear responsibilities for both parties.** Both the auditor and the client must be aware of their responsibilities for this work. This will include such things as the information, resources, or support the client will provide the auditor during the assignment; or the way the auditor will consult with the manager as the assignment progresses.
- **Dealing with changes in timeframe, scope, or resources required.** There need to be protocols for handling the inevitable changes that will occur as the work progresses. These should be discussed and agreed at the outset.
- **Handling emergent risks.** The client should know in advance how internal audit will deal with any major risks identified during the advisory work. Internal audit should therefore agree these protocols with the client, ideally before work commences.



# How should internal audit report on advisory engagements?

Generally, IIA *Standard 15.1 Final Engagement Communication* governs the reporting protocol for internal audit engagements and requires that “for each engagement internal auditors must develop a final communication that includes the engagement’s objectives, scope, recommendations, and/or action plans, if applicable, and conclusions.” The communication must also be accurate, objective, clear, concise, constructive, complete, and timely, in accordance with IIA *Standard 11.2 Effective Communication*.

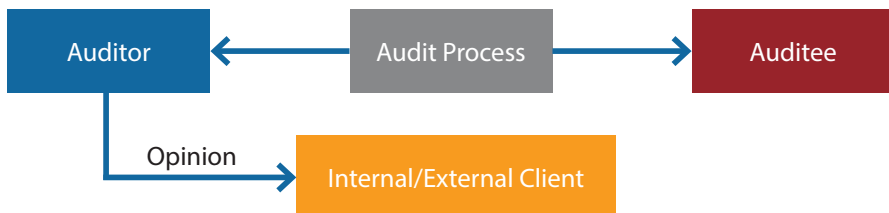
However, reporting on advisory engagements may vary considerably from one engagement to another depending on the nature of the engagement. This is because for some engagements, such as those where internal audit acts as a facilitator, there may be no formal report issued. Examples of illustrative advisory engagement reports are outlined in Annex 3.



# How do relationships differ when carrying out assurance and advisory assignments?

In an assurance audit there are three parties directly involved: the auditor, the auditee, and the client (see **Figure 5** below). The independent **auditor** carries out an examination or audit of a unit or activity (**auditee**) and provides an opinion on the results of this investigation to a third party (**client**). The client may be internal or external to the organization, such as a minister or senior official (internal) or an audit committee or other governance body (external). The internal audit report is executed through a formal report which includes internal audit observations, an opinion, and recommendations.

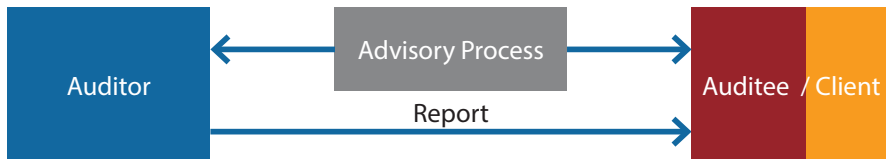
**Figure 5. Parties involved in assurance engagement**



All assurance engagements are **formal and mandatory**.

In an advisory engagement (unlike an assurance engagement) no opinion is provided by the internal auditor (see **Figure 6** below). Commonly, there are only two parties involved: the **auditor** and the **auditee/client**. However, an advisory engagement can also be requested by the board or senior management. Advisory engagements are consultative by nature and driven by management requests, therefore reporting may not be as formal and structured as assurance reports. Further, a wider range of stakeholders are usually involved in ongoing discussions throughout an advisory engagement.

**Figure 6. Parties involved in advisory engagement**



Advisory engagements can be **informal** and the report can be **optional**.

It is important to highlight that the competence of the internal audit unit is a key driver for management to request it for advisory services.

If internal audit is not appreciated, respected, or accepted for its assurance work it will never be asked to carry out advisory work.

— Audit Committee Chair



# What is the central harmonization unit's role in supporting advisory services?

The internal audit CHU plays an integral role in promoting advisory services within public institutions by providing standardized frameworks, enhancing risk management, fostering collaboration, and ensuring the continuous improvement of internal audit functions. By harmonizing practices across institutions, the CHU helps enhance governance, accountability, and transparency in public sector operations. Its efforts to build internal audit capacity, monitor effectiveness, and offer strategic advice ensure that advisory services contribute to the overall success and sustainability of public institutions, benefiting both the organizations and the public they serve.

The CHU for internal audit has some distinct roles in relation to advisory work, including:

- To develop the regulatory framework of laws, regulations, and standards which allow internal audit to carry out advisory work.
- To create guidance and manuals on how to carry out advisory services.
- To support and train internal audit staff in the application of these standards and guidelines.
- To monitor what is happening in practice and the impact of advisory services. This gathers feedback that can be used to refine the advisory process and improve the overall effectiveness of internal audit functions across public institutions.

- To assess the quality and effectiveness of advisory services by developing mechanisms for monitoring and evaluating the outcomes of advisory engagements. This can include assessing whether advisory recommendations were implemented and whether they led to improvements in governance, processes, or risk management.
- To promote good practices and the benefits of internal audit as a provider of advisory services to improve governance, risk management, and internal controls at the institutional and sectoral levels.

Most PEMPAL countries have established the regulatory framework to allow internal audit to carry out advisory work. Some countries have developed guidance in the form of manuals and reporting templates. PEMPAL countries that have established CHUs report limits on the staff available to either provide support to internal audit units in terms of developing methodology and best practice, or to monitor the provision of advisory services.

Internal audit units in **Georgia** have advisory work in their standards but they do not have standard processes for carrying these out or any reporting templates. They have quality control processes on assurance work but not on consultancy work.

In Kazakhstan, the advisory function is clearly in the law. A key indicator for the CHU is the level of advisory work undertaken. This is patchy. Of 27 internal audit units only 40% undertake advisory work. This is very low in local authorities, with only one carrying out advisory work. The CHU has not assessed the quality of work but is conducting workshops to improve knowledge of good practices.



In Lithuania, the CHU has developed a clear legal framework for advisory work and a manual on how to carry out and manage advisory engagements. The Audit Charter also covers how the independence and objectivity of internal audit must be respected.

The main ongoing role of the CHU is to ensure that internal audit units know how to implement these assignments. But the CHU is also uniquely positioned to engage with managers, so they know when and how best to use the internal audit function in certain areas – for example internal control self-assessment.



## ANNEX 1.

# Assessment of pilot implementation of electronic document management

## Background

At the beginning of 2022, the decision was made to implement electronic document management (e-DMS) in Chisinau City Hall in Moldova. The City Hall is a large local public authority with a complex organizational structure and a large volume of documents and records. It had been relying on a traditional paper-based document management system, which resulted in inefficiencies, delays, and difficulties in accessing information.

The rollout of e-DMS aimed to increase efficiency and improve governance at the City Hall. Benefits include:

1. **Improved efficiency:** the e-DMS reduces document retrieval time significantly, enabling employees to access information quickly and easily.
2. **Enhanced collaboration:** the system facilitates real-time collaboration on documents, enabling multiple users to work simultaneously on the same file, improving teamwork and productivity.
3. **Compliance and security:** the e-DMS provides robust security features, including access controls, audit trails, and version control, ensuring compliance with regulatory requirements and safeguarding sensitive information.
4. **Cost savings:** the reduction in paper usage and associated storage costs results in substantial cost savings for the entity.

5. **Scalability:** the successful pilot phase laid the foundation for the organization-wide implementation of the e-DMS, enabling other subordinated entities to benefit from improved document management processes.

As a first stage, it was decided to implement the system in pilot mode for a period of six months. A contract was concluded with a software company, the owner of the e-DMS. The system is hosted on the government Mcloud platform, administered by the software company. The contract requires the software company to provide services to adapt the system to the needs of the City Hall, and offer consultations and ensure maintenance during the pilot.

During the pilot, users of the system reported several problems. As a result, the subdivision responsible for the administration of the system within the mayor's office requested several extension periods of the pilot.

At the last request to extend the pilot period, the mayor invited the head of the internal audit and stated that: "Chisinau City Hall wants to successfully implement e-DMS and meet all implementation deadlines. I know things are not going well in the implementation process. Please, help me identify the exact nature of these problems and what solutions can be found to solve these problems".

## Objective

The objective of the engagement encompassed the following:

- i. To assess the current state of the e-DMS implementation
- ii. To identify issues and challenges being faced in the pilot rollout of e-DMS
- iii. To propose recommendations to improve processes for a successful rollout.

## Scope

The engagement was advisory in nature. The scope of the engagement focused on all deployed processes for e-DMS implementation since the award of the contract to the software company. These included processes for change management, system integration, security, user friendliness, and scalability.

The engagement was carried out in accordance with the International Standards for the Professional Practice of Internal Audit. Field work for this engagement commenced on March 1, 2024.

## Methodology

The internal audit team carried out the engagement through the following means:

- i. Interviewing key stakeholders including members of the board, operational managers, e-DMS administrator, and other IT staff.
- ii. Analysis of key documents including business case for the e-DMS, software company contract, roles and responsibilities, change management policies and procedures, etc.
- iii. Analysis of user feedback and complaints.
- iv. Documenting the change management process through flowcharting.
- v. Testing a sample of general and application controls.
- vi. Presenting recommendations to management.

A phase wise breakdown of the activities performed is highlighted below:

### Pre-engagement phase

- Initial Meeting: An introductory meeting with the mayor to gain a comprehensive understanding of their goals, challenges, and expectations with respect to the rollout of e-DMS was held.
- This engagement was not part of the internal audit plan for the year. However, the head of the audit subdivision agreed to support the mayor with the execution of this engagement due to (i) the availability of capacity and expertise within the internal audit unit; and (ii) the absence of any concerns regarding objectivity.
- An explanation was provided to the client regarding the main phases of the engagement including planning and scoping, diagnostic assessment, development of recommendations, reporting, and follow up.

- A formal documented risk assessment and specific evaluation criteria were not developed based on agreement with the client.

## Engagement phase

### **The first step: Planning and scoping**

- Defining the objectives of the internal audit advisory engagement in collaboration with the client.
- Identifying the scope of engagement, including specific areas to be addressed.
- Defining the deliverables, timeline, and resources required
- Defining the advisory approach and methodology to be deployed.
- Developing an audit plan, outlining the activities, timelines, and resources required for the mission
- Discussing the plan with the client and approving by both parts

### **The second step: Diagnostic of the situation (field work)**

- Data Collection: Gathering relevant information and data through interviews, surveys, document reviews, and any other necessary means
- Analyzing the collected data to identify key issues, trends, and opportunities for improvement
- Problem Definition: Clearly defining the problem statement based on the analysis conducted, ensuring alignment with the client's objectives.

## Main issues identified

- Technical issues.
- Lack of training, support, and guidance.
- Non-conformities in the contract for the purchase of support and maintenance services.
- Lack of general and applications controls.
- Resistance to change.

All activities performed during the diagnostic phase were documented.

### **The third step: Development of the solutions/ recommendations**

- Developing a comprehensive set of solutions and recommendations tailored to the client's needs, including process improvements, organizational changes, and strategic initiatives.
- Feasibility Assessment: Evaluating the feasibility and potential impact of each solution, considering factors such as cost, resources, timeline, and risks.

### **The fourth step: Presentation of findings and recommendations**

- Preparing a comprehensive report summarizing the findings, root causes, and recommendations.
- Presenting the report to the client, highlighting the key issues and proposed solutions.
- Clearly articulating the benefits of implementing the solutions/ recommendations and their alignment with the client expectations.

## **Key recommendations from the engagement**

1. Revise the outsourcing contact for e-DMS support and maintenance services.
2. Develop detailed guidance for the use of e-DMS and a clear roadmap for the implementation process.
3. Review and harmonize the personal data security and cybersecurity policies following the rollout of e-DMS.
4. Consolidate the entities capacities in the field of IT.
5. Ensure the management of risks and deployment of controls after the rollout.

## **The fifth step: The action plan regarding the implementation of recommendations/proposed solutions**

- Developing a detailed action plan outlining the implementation steps, responsibilities, and timelines for each solution (by the subdivision responsible for administering the e-DMS)
- Checking whether the actions set by the client can lead to the implementation of the recommendations.

## **The sixth step: Follow-up and monitoring**

- Tracking implementation of the recommended actions and assessing the progress made by the entity in addressing the identified issues.
- Providing ongoing support and guidance to management in implementing corrective measures.

## **Post-engagement phase**

Offering post-engagement support and guidance as needed, providing additional assistance in understanding recommendations or addressing new challenges.



## ANNEX 2.

# Improving Corporate Governance of the National Citizenship Registration Authority

## Background

The National Citizenship Registration Authority (NCRA) is responsible for registration and issuance of identify cards to all citizens. It is also responsible for maintaining the NCRA central database which contains demographic and biometric data for all citizens and for ensuring the security and privacy of all collected information.

The NCRA operates as a state-owned enterprise (SOE) and is governed by the State-Owned Enterprise Regulations (SOER), promulgated on January 01, 2023, for implementation by December 31, 2024.

The SOER contain requirements for effective corporate governance for SOEs including roles and responsibilities of the board of directors, including the audit committee, composition of the board, preparation of financial statements, internal controls, external audit, etc.

The NCRA implemented measures to ensure compliance with the SOER in 2023 to ensure its readiness for effective implementation by December 31, 2024.

This advisory engagement was requested by the NCRA Chair and was included in the annual internal audit plan for 2024.



## Objective

The objective of the engagement was to provide recommendations to identify gaps and strengthen compliance with the recently introduced SOER regulations prior to their effective implementation date.

## Scope

The engagement was advisory in nature. The scope of the engagement focused on the finance & internal audit units and on the role of the audit committee of the board of directors. The finance unit and internal audit unit are two separate units at NCRA.

The review did not specifically cover aspects related to remuneration of the board of directors or external audit selection.

The engagement was carried out in accordance with the International Standards for the Professional Practice of Internal Audit. Field work for this engagement commenced on March 01, 2024.

## Methodology

The internal audit team benchmarked current practices at NCRA with the requirements of the SOER to identify areas for improvement and conducted the following activities:

- Interviews with key staff and members of the audit and nomination committees (two separate committees of the board of directors).
- Review of financial statements and external audit reports.
- Interviews with external auditors.
- Review of board minutes and other resources.

## Criteria

The criteria used for recommending improvements were the requirements of the SOER of 2023.

## Summary of Recommendations

### Strengthen Composition of Audit Committee

- **Condition:** It was noted that although the audit committee is comprised of three members with financial and accounting backgrounds, none of these members are professional accountants.
- **Criteria:** Section 5 of the SOER requires that the audit committee of the board of directors shall comprise of a minimum of three members from a finance and accounting background and at least one member should be a professionally qualified accountant.
- **Cause:** Nomination process for recruitment of audit committee members did not consider this requirement of the SOER.
- **Effect:** This gap can lead to non-compliance with the SOER and resultant fines under section 25 of the Regulations.
- **Recommendation 1:** The nomination committee of the board of directors updates its board composition matrix to specifically outline the requirement for one member of the audit committee to have a professional accounting qualification.
- **Rating:** High
- **Responsible:** Nomination committee, board of directors, NCRA
- **Due Date:** December 31, 2024

### Strengthen Monitoring of System Access Logs

- **Condition:** It was noted that although audit logs are created when any files are accessed in the central database, these are not being reviewed at regular intervals.

- **Criteria:** Section 10 of the SOER requires that all SOE chairs put in place sufficient controls to address the requirements outlined in the Privacy Act, including to ensure that access, use, and disclosure of personal information are monitored at regular intervals. Further, Section 7 of the NCRA IT Security Policy requires user access reviews to be carried out on a weekly basis.
- **Cause:** Discussions with the chief information officer indicate that a lack of capacity contributed to the irregular review of system access logs.
- **Effect:** This gap can lead to significant reputation risk for NCRA and non-compliance with the SOER and resultant fines under section 25.
- **Recommendation 2:** NCRA considers augmenting capacity within the IT security team to carry out user access reviews on a weekly basis as required under the IT security policy.
- **Rating:** Medium
- **Responsible:** Chief information officer
- **Due Date:** 31 October 2024

## Distribution

Board of directors, chairperson NCRA, head of finance, head of human resources



## ANNEX 3.

# Examples of Internal Audit Advisory Reports

For reference purposes, examples of other illustrative internal audit advisory reports are available at the links below:

- **Internal Audit Advisory Report on Business Continuity Management in British Columbia**  
(<https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/services-policies-for-government/internal-corporate-services/internal-audits/business-continuity-management-program-1-review.pdf>)
- **Internal Audit Advisory Report on Financial Monitoring and Oversight for Ministry of Children and Family Development in British Columbia**  
(<https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/services-policies-for-government/internal-corporate-services/internal-audits/mcfd-financial-monitoring-oversight-review.pdf>)
- **Internal Audit Advisory Report on Information Management for Ministry of Citizens' Services in British Columbia**  
(<https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/services-policies-for-government/internal-corporate-services/internal-audits/citz-imit-cim-review.pdf>)
- **Internal Audit Development Securities Review for the City of Edmonton**  
([https://www.edmonton.ca/sites/default/files/public-files/12352\\_Development\\_Securities\\_with\\_Admin\\_Response.pdf?cb=1716558775](https://www.edmonton.ca/sites/default/files/public-files/12352_Development_Securities_with_Admin_Response.pdf?cb=1716558775))



