

Chapter 20 – Internal Control & Audit Tracking

20.40 Internal Auditing Policies

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Internal Auditing Policies

20.40.10 Why an internal audit function?

An internal audit function aids management by improving the quality of the control environment (see Subsection 20.20.60.d). These internal auditing policies should provide agency directors, internal control officers, internal auditors, and other agency staff with a background and approach toward the establishment of an effective internal audit function, as appropriate.

20.40.20 What is internal auditing?

Internal auditing is an independent appraisal activity established within an agency for the review of operations as a service to management. The objective of internal auditing is to assist agency staff in the effective discharge of their responsibilities.

Internal auditors examine and evaluate the planning, organizing, and directing processes to determine whether reasonable assurance exists that the agency will achieve its goals and objectives. Such evaluations, in the aggregate, provide information to appraise the agency's overall control system and the quality in implementing assigned responsibilities. All systems, processes, operations, functions, and activities within an agency are subject to evaluations by internal auditors.

20.40.30 What are the differences between internal and external auditing?

Internal and external audits are different in the following respects:

- 20.40.30.a Internal auditors are employees or contractors providing internal auditing services in a specific governmental unit.
- 20.40.30.b External auditors are independent of the governmental unit. External auditors must be independent both in fact and in appearance.

External auditors include:

- State Auditor.
- Government auditors who are members of a government other than the State of Maine.
- Independent public auditors who provide auditing services on a fee basis.
- Auditors of legislative organizations such as the OPEGA.

20.40.30.c External audits do not alleviate the need for an internal audit function, and vice-versa. Internal and external audit functions are complementary. Agencies are not to rely solely on audits performed by outside parties to measure the appropriateness and degree of internal activities. Audits by external agencies, such as the OPEGA and the State Auditor, are not intended to replace an ongoing management review of operations and may in fact be limited by law in the scope of the examination they may perform. This limit on the scope may preclude a comprehensive review of an agency's internal procedures.

20.40.40 What are the basic requirements of internal auditing?

20.40.40.a An internal audit program should be made based on the results of a risk assessment and the prioritization of the agency's other programmatic needs.

Internal audit programs implemented by agencies should follow auditing standards as appropriate for the agency or program (i.e. Generally Accepted Government Audit Standards or Institute of Internal Auditor Standards).

20.40.40.b Internal auditing is to:

1. Review operations or programs to ascertain whether results are consistent with established goals and objectives and whether the operations or programs are managed according to plan.
2. Review the management control system designed to ensure compliance

with those policies, plans, procedures, laws, regulations, and contracts that could have a significant impact on operations. Also report whether the management control system is working as designed.

3. Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
4. Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
5. Appraise the economy and efficiency with which resources are employed.
6. Isolate problem areas and provide a means for corrective action before the problem affects operational efficiency.
7. Promote open communications and establish a positive relationship among the internal auditor, external auditor, agency staff, management, audit committee, and board/committee/commission members as applicable.

20.40.40.c

The internal control function of the Bureau of Accounts and Control is an integral part of the State of Maine's efforts to improve financial management and accountability. It serves to promote objective, comprehensive review coverage and to assure the consideration of audit recommendations.

To accomplish this, the internal control function within the Bureau of Accounts and Control is responsible to the State Controller with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations.

Agency based internal auditors should also be independent of the activities they audit by having no direct or indirect authority or responsibility for the programs or operations they audit. Generally, reports and associated audit findings, recommendations, and analyses are directed to the agency head, or chief executive officer.

20.40.40.d

Internal audits may be performed during or after a fiscal period. In either case, an audit is not part of any control activity; however it serves as an important component of the management control system.

The activities of an internal audit, whether performed during or after a fiscal period, may include:

- Consultation and education sessions to familiarize agency staff with control activity responsibilities,
- Assisting agency staff in preparing for new processes or requirements,
- Reviewing agency activities to serve as a basis for recommending improvements as necessary to aid in the accomplishment of agency identified goals and objectives.