Prime Minister 2

This is probably a candidate for next weekend's box, but you may wish to glance at the attached report. I do not think you need bother with the annexes.

WN
2/4

PRIME MINISTER

INTERNAL AUDIT IN GOVERNMENT DEPARTMENTS

I undertook to let you have a progress report on this at
the end of March. It is enclosed.

2. A useful start has been made in what we know is a long
campaign which needs to be sustained. Some departments have
moved faster than others. This was to be expected, and
will no doubt continue. But there has been plenty of action
and in general the Treasury believes that the need for major
improvement, especially in computer audit, has been well
taken on board, and the right actions are in hand. The
changes in staffing summarised in paragraph 6 of the report
are important and encouraging.

3. The first stage is to identify and get into post suitable
people to head audit units, to settle their objectives and
terms of reference, and to prepare the necessary documentation.
That stage is going quite well. It will take some months
more to complete.

4. To get the audit teams fully trained and experienced and
operating effectively to an acceptable standard as a routine
will take a good deal longer. The aim is to bring computer
audit up to a fully acceptable standard by 1984 and internal
audit as a whole by 1986. These targets still look realistic
but we need to keep up the impetus. I propose to report to
you again in 12 months' time.

1.

5. I am sending copies of this minute to all Cabinet colleagues, Sir Robert Armstrong and Sir Derek Rayner.

L.B.

LEON BRITTAN
31 March 1982

10 DOWNING STREET

From the Private Secretary   5 April 1982

Internal Audit in Government Departments

The Prime Minister was grateful for the Chief Secretary's minute and progress report of 31 March. She is glad to know that good progress is being made to improve internal audit and that the initiative by the Treasury and MPO and the work in hand in Departments will enable a satisfactory answer to be given to the Public Accounts Committee in June.

I am copying this letter to Peter Jenkins (HM Treasury), Jim Buckley (Chancellor of the Duchy of Lancaster's Office), David Wright (Cabinet Office) and Christopher Joubert (Sir Derek Rayner's Office).

W. F. S. RICKETT

T.F. Mathews, Esq.,
HM Treasury

INTERNAL AUDIT IN GOVERNMENT DEPARTMENTS

The present programme of work was initiated by a letter which
Sir Douglas Wass and Sir Ian Bancroft sent to the Permanent
Secretaries of 18 major departments on 20 March 1981. A copy is
at Annex A. This letter called on Permanent Secretaries -

(1) to ensure that their head of internal audit is suitably
experienced, graded and qualified, and to submit for approval
by the Treasury a job description and a statement of objec-
tives for his unit by 30 September 1981;

(2) to agree with the Treasury by 31 December 1981 a course
of action to bring computer audit to an acceptable standard
within 3 years;

(3) to agree with the Treasury on a provisional basis the
composition of their internal audit units by 30 June 1982.

2. In order to spread the Treasury's work-load, smaller depart-
ments and those sponsoring non-departmental bodies were asked on
23 October 1981 to carry through the same programme with the
later target dates of 30 April, 30 September and 31 December 1982
respectively.

Stage 1

3. This stage is crucial, because the appointment of the right
Head of Internal Audit and the drawing up of his job description
and terms of reference set the direction in which all else will
follow. To assist departments, the Treasury circulated model
statements of objectives and job descriptions (Annexes B and C),
and have tested departments' submissions against them.

4. In order to produce a sound foundation for future advance,
7 departments have conducted major reviews of their internal

audit arrangements. They are PSA, Land Registry, Inland Revenue, Employment, Industry, MAFF and DES. The first 4 used the Treasury's AFA Division as their consultants, Industry used Touche Ross, and MAFF used Coopers and Lybrand. These exercises have caused some delay to the completion of Stage 1 (as also of Stage 2), but in the Treasury's view the time has been well spent.

5. The position at the end of March 1982 is that the Treasury is satisfied that good terms of reference and job descriptions have been produced or will very shortly be completed for 14 of the 18 major departments. Discussions on points of substance have still to be completed with four departments. These concern the independence of the audit unit from the accounts organisation in 3 cases and the scope of the audit in the fourth. It is hoped to sort out these remaining issues by the end of April 1982.

6. As regards the grading and qualifications of heads of internal audit, good progress has been made. There have been 21 changes (including some small departments). In 11 cases the post has been upgraded. In March 1981 the number of heads who were pro-fessionally qualified was 5. They now number 15 (9 of them in the major departments) and 3 more are currently being sought, for. In several cases the Treasury has agreed with the depart-ment that an officer who is not professionally qualified but who has a thorough knowledge and experience of audit and the right personal qualities is the best man for the job.

Stage 2

8. Computer audit is the area in which there is most to do. This is true of the private sector and other governments also; the US Comptroller General reported to Congress in October 1981 that 12 out of 19 US agencies inspected had a gravely deficient capability in this field.

9. Formal submissions of plans are still outstanding from 6 major departments, in most cases because of the reviews referred to in paragraph 4. But progress is generally good; the fact that the problem is difficult and existing arrangements patently inadequate has led departments to tackle the computer aspects of audit with greater energy and a readier willingness to make changes.

The Treasury has circulated a model action plan (Annex D) and plans are being tested against it.

10. Improvements agreed so far include:-

(a) all departments have now accepted the systems-based approach;

(b) several have changed the scope of their computer audit to include all computerised systems and not just those that deal with financial transactions;

(c) the need to strengthen and upgrade the computer audit function has been generally recognised. Several posts have been upgraded and increased numbers of staff at SEO and HEO levels devoted to the task.

11. In general there is good reason to believe that departments are taking computer audit seriously, devoting much thought to it and producing systematic plans of a kind that have not existed before. The Treasury hopes to complete the agreement of those plans by the end of April, 1982.

12. But while some practical changes are beginning to appear, what has been done so far is mostly study and planning. There is a very long way still to go. The Treasury believes that the objective of reaching an acceptable standard within 3 years is attainable and that the job is generally being tackled in the right way. But all of the 3 years will be needed.

Stage 3

13. Departmental returns are not yet due, but the Treasury is holding discussions with the departments. Apart from training (see following paragraphs), the question is mainly one of numbers, grades and job descriptions. The Treasury will circulate by the end of March specimen job descriptions for the various levels of

audit task with guidance about their grading. While much of the work in the past has been performed at CO and EO level, this guidance will suggest that the responsibilities of the fully trained basic audit task are unlikely to be properly discharged below the level of HEO, and that EO is more appropriate as a training grade.

Training

14. Training is clearly crucial; it takes time to get it right.

15. A note of the present provision by the Civil Service College, including some new courses for 1982-83, is at Annex E. In addition, some departments are making use of external training provided by the Institute of Internal Auditors or in a few cases setting up training of their own.

16. These arrangements will adequately meet the existing demand. But existing demand and need are not the same thing. First, the formulation by departments of their places for the composition of their audit units (Stage 3) is likely in itself to increase demand. Secondly, the Treasury intends to review the training need with the help of the Financial Management Co-ordination Group, and to produce in collaboration with the MPO a basic profile of the training which civil service auditors at the various levels will require in order to perform to a fully acceptable standard. It will then be necessary to devise the most cost-effective pattern of supply, drawing on College, departmental and external resources.

15. It is hoped to isse the proposed training profile for consultation within the next few weeks. It is unlikely to propose major changes in training for computer audit, for which existing plans cater reasonably well. But it will propose additional training to raise the level of understanding and technical competence of general audit staff in order to meet the more exacting standards required by the systems-based approach. Much detailed work will then be necessary to determine the best pattern of supply for audit training overall, including expanded use of

4

external resources, eg   polytechnics; to get courses up and running; and to revise them in the light of experience. It may well take 2 years or even more to bring audit training to a state which is satisfactory all along the line.

Internal Audit Manuals

17. The Treasury intends to issue a comprehensive set of manuals to all internal audit units by January 1983. A brief description of these manuals is at Annex F.

Continuing tasks

18. The completion of the three stages, the review of training and subsequent follow-up action, and the issue of the manuals will constitute a full task for 1982. Thereafter it will be necessary to keep up the impetus and monitor progress. Tasks for the Treasury will include

(a) liaison with, and practical assistance to, departments;

(b) assisting the further development of training;

(c) maintaining and up-dating manuals, instructions and other documentation;

(d) maintaining strong links with the professional institutes, serving on their appropriate committees and influencing developments which will concern government auditors;

(e) organising conferences, seminars etc for dissemination of experience;

(f) inspection on the ground, calling for reports etc to monitor progress.

PAC Inquiry

19. The PAC have asked the Treasury for a memorandum on progress, to reach them by the end of June, 1982. They may then take

5

oral evidence. Their list of questions is at Annex G. They largely deal with the matters summarised in this report.

Mr RICKETT

INTERNAL AUDIT IN GOVERNMENT DEPARTMENTS

1.   I attach a draft letter to Mr Mathews for your consideration.

with WR?

2.   The report made is satisfactory and is, in our view, an indication of genuine activity on the part of departments.

3.   You may like to be reminded that the major reviews carried out by MAFF and the Department of Industry (among those referred to in para. 4 of Mr Brittan's minute) were undertaken at the request of the Prime Minister, given her concern that the very adverse report made by the Comptroller and Auditor General a year ago should be met, in part at least, by the use of management consultants to enquire into the state of financial management in some spending departments. The recent submissions by Mr Peter Walker and Mr Patrick Jenkin, dealt with on other papers, refer.

C PRIESTLEY
1 April 1982

Enc: Draft letter

T F Mathews Esq
HM Treasury

INTERNAL AUDIT IN GOVERNMENT DEPARTMENTS

1.　　The Prime Minister was grateful for the Chief Secretary's minute and progress report of 31 March. She is glad to know that good progress is being made to improve internal audit and that the Treasury/MPO initiative and the work in hand in Departments will enable a satisfactory answer to be given to the Public Accounts Committee in June.

2.　　The Prime Minister sees the up-rating of internal audit as important in itself and also as an element in the Government's general policy towards financial management in the public sector. She is conscious that the programme of work envisaged will not be completed without difficulty, but she is anxious that it should receive the necessary commitment of resources, both by the Treasury and the MPO and by other Departments.

3.　　I am copying this letter to Peter Jenkins( ), Jim Buckley( ), the private secretaries of all Cabinet Ministers, David Wright (Cabinet Office) and Christopher Joubert (Sir Derek Rayner's Office).

W F S RICKETT
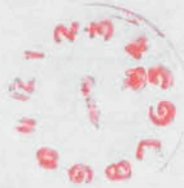
1 TREASURY
Parliament Street
LONDON
SW1

CIVIL SERVICE DEPARTMENT
Whitehall
LONDON
SW1

20 March 1981

Dear Brian,

INTERNAL AUDIT

We are writing jointly to you, after consultation with the Head
of the Government Accountancy Service, about the general problem
of the quality of internal audit service-wide, in the light of
three recent indications of the need for fresh attention and
action in this field.

2. Of particular importance is the Memorandum submitted by
the C & AG to the Public Accounts Committee, analysing a recent
survey by the Exchequer and Audit Department of internal audit in
departments. It is subject to Parliamentary privilege until the
PAC publishes it, but we enclose a copy, with Douglas Henley's
agreement, on a confidential basis. The Memorandum is highly
critical. Its message is that the general standard of internal
audit units is too low and is particularly inadequate in relation
to the audit of computer-based systems. These faults are attributed
to insufficient involvement at senior levels in departments, a
lack of professional skills and management within the audit units,
personnel policies which result in staff being engaged in
internal audit for too short a period, and inadequate direction
from the centre.

3. The two other pieces of evidence are the results of surveys
commissioned by the CSD last year on aspects of computer audit.
Copies of these are also enclosed. They also report serious
deficiencies.

4. These criticisms do not apply with equal force to all
departments. We have already seen some comments from those who
feel that they are not wholly fair. There will be opportunity
later, when the report is published, to deal with its contents
in more detail. But we believe that the need is demonstrated to
bring the performance of internal audit up to an acceptable
standard.

5. This is not just a matter of defence against criticism.
Effective internal audit is an essential service for departmental
management. The investigations of the Exchequer and Audit
Department are no substitute for an efficient internal audit.
They fulfil a different purpose; the C & AG reports to Parliament,
whereas internal audit serves departmental management.

6. The range and purpose of internal audit are set out in
paragraphs C 21-24 of Government Accounting. This makes clear the

Sir Brian Hayes KCB

importance of an effective system to the department, particularly to the Permanent Secretary and his senior management. It is the business of internal audit to report not only on propriety, security, completeness and accuracy of departmental activities and transactions, but also on the reliability and efficacy of financial control systems. In short, internal audit is a potent weapon to help us control our businesses, look after our assets, and secure value for money. The Head of Internal Audit should have direct access to the Principal Finance Officer, and where necessary to the Head of the Department; and get real and visible backing from them.

7. The Treasury, with the help of the CSD, has an important part to play in bringing about improvements in internal audit. The imminent transfer from the CSD to the Treasury of the Accountancy Finance Audit Division will bring together under Treasury leadership the responsibility for setting standards and procedures in Government financial control, including internal audit, and the professional capability of developing and monitoring the standards and procedures, and helping departments to make cost effective use of their own internal audit resources. Work has already begun on producing fuller audit standards and guide-lines, an audit manual, and a wide range of specimen documentation. A new computer audit manual will be produced.

8. Help from the centre must extend beyond issuing written guidance. The Treasury and the CSD are reviewing the range of assistance they can provide, including help on recruitment and training.

9. Much must depend on action by individual departments themselves. Specifically we ask you, and the Permanent Secretaries of all major departments:-

(i) To take a personal interest in reviewing and improving your internal audit arrangements and in ensuring that their importance is understood by, and recognised in relations with, Principal Finance Officers and Line Managers. You may wish to consider establishing an Audit Committee, chaired at senior level. Some departments have found this useful.

(ii) To ensure that your Head of Internal Audit is suitably experienced, of appropriate grade, and preferably professionally qualified. We ask you to review the statement of objectives of internal audit in your department, and the job description of the Head of Internal Audit, and to submit them to the Treasury for approval by 30 September 1981. Where the description or grading of the job is to be altered you should also let us have your proposal for ensuring that the post is appropriately filled at the earliest possible date. All new appointments to the post should be cleared with the Treasury, and this will become the standard practice in future.

'iii) To agree with the Treasury on a provisional basis,
at latest by 30 June 1982, the composition of your
internal audit section. The development of these
sections will have to be progressive, and it is
unlikely to be completed until an appropriately
qualified Head of Audit has been in post for some
months and has brought his judgement to bear.

(iv) Where the department has substantial computer operations,
to agree with the Treasury by the end of this year a
course of action to bring audit to an
acceptable standard within three years.

You may want to consult the Treasury and the CSD on these
actions, well ahead of the dates given, and we would welcome your
doing so. On items (ii) and (iii) the point of contact will be
Geoffrey Littler in the Treasury. On more technical audit questions
and on computer audit, your people should get in touch with
Edwin Walker, in AFA Division, Treasury. Where new posts above
delegated levels or other matters affecting the CSD are involved,
that department should be consulted in the normal way.

10. We recognise that the necessary improvement in the standards
of internal audit in all departments will be a very large
exercise. However the C & AG concludes that the need is not
necessarily for larger numbers overall, but for a greater
proportion of more professional, highly graded staff. We cannot
do everything at once, but it is important to set and keep up
momentum.

11. There will be much to be done in developing and placing
adequately qualified people to work in internal audit. We think
you should ask yourself whether your personnel management
arrangements will ensure that adequately qualified people are
available to be posted to internal audit, receive any further
training that is necessary, and are retained in the internal audit
section for sufficient periods (normally not less than four years)
to meet the needs of the work. The current proposals for a
functional specialism are relevant, as they provide some central
involvement in the management of staff trained and experienced
in accounting-type work, and our hope is that it will provide a
substantial impetus to the input of professional accountancy
skills. We believe that the importance of internal audit
justifies allocating to it a due share of really able staff, both
accountants and others. Periods of duty in internal audit
should swell the cadre of people from whom senior financial staff
can in the future be drawn.

12. The key posts are those of the Head of Internal Audit
and the senior staff who help him to plan and supervise the work.
It must be our aim to produce and train officers who can occupy
these posts with full competence within the Civil Service. This
however will take time. In a number of cases it may be necessary
initially to use outside consultants, particularly on computer
audit, though we have to recognise that there is a nationwide
shortage of people with the combination of computer and audit
skills. When we know the size of the demand (see paragraph 9(ii).

abo` `, we shall consider with you what needs to be done in order to inform the unions, find appropriate candidates and settle terms and conditions.

13. Training will be a particularly important part of our efforts, and we will welcome assessments from departments of their training needs, as soon as these can be made, so that we can provide the most effective assistance. The Treasury and the CSD, in consultation with departments, will specify minimum training standards. From this specification, and the forecast of needs which departments provide, we shall be able to build up a picture of the resources needed for development and training; and as departments develop their plans further, they should keep in close touch with the College and the centre so that training resources can be developed to meet departments' needs. The Civil Service College is already planning improvements in training, including seminars for senior audit managers and on the audit of more advanced computer systems and departments will be kept informed of all further developments in the training plans of the CSD and Treasury.

14. This letter is being copied to the Permanent Secretaries of major departments on the attached list. We felt that it was right to start with these departments, but a similar letter will be issued shortly to other, smaller, departments, in a slightly different form to recognise their particular problem.

Yours ever

DOUGLAS WASS

IAN BANCROFT

Sir Brian Hayes KCB
Ministry of Agriculture Fisheries & Food
Whitehall Place
LONDON SW1A 2HH

Sir Douglas Lovelock, KCB,
HM Customs & Excise
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Sir Frank Cooper GCB CMG
Ministry of Defence
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Sir James Hamilton KCB MBE
Department of Education & Science
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Sir Kenneth Barnes KCB
Department of Employment
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Sir Donald Maitland GCMG OBE
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Sir John Garlick KCB
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Sir Robert Cox KCB
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Sir Peter Preston KCB
Foreign & Commonwealth Office
(Overseas Development Administration)
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Sir Patrick Nairne KCB MC
Department of Health & Social Security
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Elephant & Castle
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Sir Brian Cubbon KCB
Home Office
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Sir Peter Carey KCB
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Sir Lawrence Airey KCB
Inland Revenue
Somerset House
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Sir William Fraser KCB
Scottish Office
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SW1A 2AU

Sir Kenneth Clucas , KCB,
Department of Trade
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Sir Peter Baldwin KCB
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T.P.Hughes,Esq., CB,

INTERNAL AUDIT - STATEMENT OF OBJECTIVES

1. Definition:

Internal Audit is an independent appraisal within the Department for the review of accounting, financial and other operations. It functions by measuring and evaluating the effectiveness of other controls and provides a service to corporate management.

2. Aims:

a. To provide assurance to management that:-

   i. Internal control systems (including computer systems) are adequate and are functioning efficiently and effectively.

   ii. The policies and procedures established by management are being complied with, are appropriate in current circumstances and are not wasteful.

   iii. The accounting records form a reliable basis for the production of the Appropriation, White Paper, and other accounts, including management and trading accounts.

   iv. The information furnished to management in connection with decision-making processes is reliable.

b. To draw the attention of management to:-

   i. Deficiencies in the organisation or system of control.

   ii. Instances of duplicated functions, excessive checking, wastage and other inefficiencies, and to suggest remedies.

c. To provide advice on systems of control, provided that this does not detract from the objectives of the internal audit unit.

d. Carry out any special reviews or assignments which may be required by top management and to initiate special reviews as necessary.

3.   Scope:

a. The review of the whole systems of control, financial and otherwise, established by management to secure as far as possible the propriety of transactions and the accuracy and reliability of the Departments records and to safeguard its assets including debts.

b. The review of the value received for money spent including efficiency, economy and effectiveness in the use of resources in all areas.

c. Taking reasonable steps to test the Departments' systems for safeguards against fraud and corruption.

d. To audit such other bodies as the Permanent Secretary/ Accounting Officers may agree.

While it is not the responsibility of internal audit to question policy decisions, the independence of their role entitles them to draw attention to any apparently uneconomical result flowing from a decision or from a long-established practice, which may be in need of review.

4.   Standards:
The internal audit unit will be expected to perform its task in accordance with current best audit practice, and the standards promulgated by the central departments.

The HIA has the Accounting Officer's authority to seek and receive in confidence all papers and information needed to discharge the unit's responsibilities.

Auditing will be based upon the evaluation systems, and will include both compliance and substantive testing.

JOB DESCRIPTION

TITLE: HEAD OF INTERNAL AUDIT

PURPOSE: The main purpose of the job is to provide Accounting Officer with an independent appraisal of the Departments internal control over its business, including efficiency, economical conduct and the safe-guarding and proper use of resources throughout the organisation.

PERSON: The officer occupying this post will have appropriate experience of audit and audit management. These qualities will normally be in addition to a professional qualification in accountancy. A knowledge of government accounting and computer based systems is desirable.

MAIN ACTIVITIES:

i. Planning and programming audits:-

 a. Formulates long term plan.

 b. Formulates annual operating plans based on the long term plan, both of which are agreed with top management.

 c. Reviews progress: revises plans as shown necessary by implications of audits being performed and developments in the Department's activities, organisation and systems.

 d. Programmes audit work on basis of plans, taking account of availability, experience of expertise of audit staff.

 e. Advises senior management on audit resource capability to meet plans.

 f. Audit reports will be addressed to senior managers with a copy to the PFO for all major audits. Reports will be followed up in the first instance by the HIA.

 g. Reports to the Accounting Officer (via the Principal Finance Officer) on progress made towards fulfilling the plans and significant matters arising from audits.

ii. Directing and monitoring audits.

iii. Audit staff management and training.

JOB DESCRIPTION (continued)

iv., Liaison with Divisional Management, OGD's, E&A Department, and AFA Treasury on audit matters.

v.   Representing the Department on audit matters.

vi. Commenting on the adequacy of control in new systems.

NOTES ON ROLE:

i.   It is the Accounting Officer(s) responsibility to ensure that adequate and effective arrangements for internal audit exist in his Department.   The Head of Audit has the day to day responsibility, and the appropriate authority, to ensure that this is done.

ii. The Head of Audit is authorised to act independently in expressing opinions and recommendations arising from his work. He has a right of access to the Accounting Officer where he judges this necessary.

iii. The Head of Audit shall have no executive or line management responsibilities outside Audit Section, neither will he be directly responsible for the development or implementation of new control systems.

iv. The Head of Audit is expected to keep abreast of new developments in his field of interest.

SKELETON ACTION PLAN FOR COMPUTER AUDIT

1. <u>Establish Objectives for Computer Audit</u>

1.1 Define Computer Audit Function and Terms of Reference in the light of Internal

Audit's own T.O.R

1.2 Agree priorities and areas of coverage. Scope of Computer Audit (Appendix)

1.3 Agree the approach to audit

- Systems Based Audit of Computerised Systems

- Relation of Computer Audit to General Audit

- Role of computer auditor

- Systems Audit Techniques

- Specialised Computer Audit Techniques

- Procedures for performing the audit.

2. Agree the structure and organisation of the Computer Audit Function within

the audit division.

3. <u>Staffing</u>

3.1 Produce Job descriptions and specification.

3.2 Decide on structure, grade, numbers and organisation.

3.3 Agree on need for professional qualifications.

4. <u>Training</u>

4.1 Produce a training profile for EO, HEO, SEO, Prin computer auditors

4.2 Plan for immediate training programme for next year and years thereafter

4.3 Levels of Competence to be attained

4.4 The need for field guidance and the way to achieve this

4.4.1 Using AFA

4.4.2 Using external consultants

4.4.3 Using experts within the department but possibly located elsewhere

4.4.4 Using experts from other departments

4.4.5 Learning on the job

4.4.6 Secondment to DP department

4.5 Produce or obtain computer audit guidance material. Use to form basis of both

training and audit procedures.

5. Planning

5.1 Link with general audit. Who is responsible for the various systems.

5.2 Risk analysis

Establish Priorities

5.3 Establish cycle for reviewing systems

5.4 Develop yardstick for planning manpower/resource allocation to audits

5.5 For systems under development establish points in development cycle at which

audit should examine

6.   Computer Audit Procedures

6.1   Method of Working

Initiation

Fact Finding and Recording

Evaluation

Testing

Reporting

6.2   Establish standards on documentation of recording systems, working papers,

reporting.

6.3   Establish method for supervising and planning audits.

6.4   Establish method of coordinating reporting and results from audits. Need to

link results from different audits for high level evaluation in very large

systems.

<u>AREAS OF CONTROL IN COMPUTER BASED SYSTEMS</u>

1. <u>EXISTING SYSTEMS</u>
   <u>INSTALLATION</u>
1.1 The effectiveness of the specific controls built into individual
    application systems can be jeopardised unless an acceptable
    standard of discipline is maintained over computer operations.
    It is also necessary to protect the department's investment in
    hardware, software and data. The auditor, therefore, needs to
    be concerned with the procedures for:-

    1. file control eg creation, storage and use
    2. program control eg amendment, testing and documentation
    3. job control eg logging and review
    4. data control eg conversion, validation and terminal access
    5. hardware protection eg maintenance, back up and standby and
       inventory control.

1.2 <u>APPLICATION</u>

    Control over individual applications may be exercised by
    clerical procedures and/or computer processes in either case
    the auditor will be concerned that

    1. all input is authorised, complete and accurate and processed
       only once

    2. processing is accurate and complete

    3. master files contain accurate and authorised data

    4. output is accurate and complete and distribution is controlled

    5. the information trail through the system is complete.

1.3 <u>OPERATIONAL EFFICIENCY</u>

    An efficiency audit is concerned with the department's use of
    the computing resource. It is a highly technical area (which
    will be outside of the experience of most auditors) and might
    include

    1. job scheduling
    2. system design philosophy
    3. equipment utilisation
    4. standards
    5. maintenance policy.

2. DEVELOPING SYSTEMS

2.1 APPLICATIONS

Development control is applicable both to new systems and to amendment of existing systems. The auditor will be concerned that the final system meets the requirements outlined in para 1.2 above and will, therefore, need to be satisfied that there is adequate provision for:-

1. documentation
2. user involvement
3. testing and acceptance
4. training.

2.2 PROJECT MANAGEMENT

In addition to satisfactory system design the auditor will also be concerned with the quality of project management and will therefore be interested in standards for

1. feasibility studies and investment appraisals including costings

2. procurement of equipment

3. approval procedures

4. cost and project monitoring

5. consultation with all interested parties

6. post implementation review

7. an overall computing strategy.

TRAINING BY THE CIVIL SERVICE COLLEGE

Systems Audit

2.   The basic "Systems Audit" course (Module 'A', 5 days) was made residential and more intensive in 1981/82;   the new format is currently under review.   We intend to run 8 courses in 1982/83.

Audit Management

3.   We are introducing this year a course on "Departmental Audit Management" (5 days) which will run twice in 1982/83.   A further course "Managing Audit Teams" (4 days) was reviewed this year and will also run twice in 1982/83.

Statistics for Auditors

4.   A course on "Statistics for auditors and accountants" (5 days) is presented by the Statistics and Operational Research Directorate.   Other courses under consideration for 1982/83 are "Analysis of costs by statistical methods" and "Sampling schemes for auditors".

Computer Audit

5.   There are computer audit courses as follows:

(a) Introduction to computers for auditors (Module 'B', 5 days) - 2 courses in 1982/83.

(b) Audit of computer applications (Module 'C', 5 days) - 3 courses in 1982/83.

(c) Audit of computer administration and system development (Module 'D', 5 days) - 3 courses in 1982/83.

(d) Principles of file tab for auditors (Module 'E', 5 days) - 3 courses in 1982/83.

(e) Advanced computer technology for auditors (Module 'F' under development) - 1 course planned for 1982/83.

Lecturing Staff

6.   The Economics and Accoutancy Directorate has a complement of 5 internal audit lecturing posts (2 Chief Accountant, 3 SEO) but the 2 Chief Accountants are also required for some accountancy courses.   The systems audit SEO post has been vacant but will be filled in April this year.   One of the SEO computer audit lecturers is due to retire in July.   We are having difficulty finding a replacement;   we are currently advertising outside the Civil Service.

Institute of Internal Auditors

7.   For the computer audit courses, accreditation is being sought by the College for purposes of the Institute of Internal Auditors' Qualification in Computer

Auditing. The College is also arranging with the Institute for registration as an approved tuition provider for the Institute's Diploma in Internal Audit.

Backlog

8.   Our information on the present backlog (from applications actually received) shows the following numbers nominated but not placed:

    Module 'B' - 15

    Module 'C' - 18

    Module 'D' - 7

The MOD tell us their annual requirement for computer audit courses is likely to be about 10 students for Module 'B' and 4 for each of Modules 'C', 'D' and 'E'. They are considering the members they might want to put forward for the IIA Diploma examinations (at present not likely to be more than 12).

9.   We are planning to organise one extra Module 'B' and one 'C' during this academic year to clear most of the backlog as notified to us.   For 1982/83 we will probably have some flexibility in that we may not need to run 3 'E' Modules and we may not necessarily develop a Module 'F' in the form so far considered. Additionally, we are investigating alternative methods of providing the basic instruction contained in Module 'B'.

Internal Audit Manuals

All internal audit units will have a comprehensive set of manuals
by January 1983. These will consist of four separate loose-
leafed volumes of matched size (A5) and style as follows:-

Volume I   Comprehensive instructions on the organisation
and operation of internal audit. Covering such things as
standards, structure, objectives, training, glossary of
terms etc. It will also incorporate a bibliography and an
index to all volumes.

Volume II   A series of papers covering techniques,
types of audit and other matters of audit interest. We are
planning to issue at least ten papers as the initial distri-
bution. Each paper will comprehensively cover its subject
field and will also serve as a stand-alone training handout.

Volume III   Computer audit guidelines - concepts and
techniques. It has been decided to adopt the Chartered
Institute of Public Finance and Accountancy's (CIPFA)
publication, which was developed with Treasury assistance.

Volume IV   Computer audit guidelines - operations.
This is a companion volume to Volume III and will be
published probably in late 1982.

PAC QUESTIONNAIRE

QUESTIONS TO THE TREASURY

1. Have objectives for internal audit now been approved in all the major departments? What are these objectives and are you satisfied that they will be vigorously pursued by senior management?

2. Much will depend on the staff appointed to the key internal audit posts in departments. What grade are these posts in the major departments; how many have been filled; how many are being filled by professionally qualified staff?

3. In March 1981, the C&AG reported that over 60% of internal audit staff were in the Executive Officer or Clerical grades. What grading structure is proposed in the new plans for major departments which were due to be agreed with the Treasury on a provisional basis by 30 June 1982?

4. What is the total number of internal audit staff in the major departments? How does this compare with a year ago; what change is expected in the next 2-3 years; and are you satisfied that internal audit is being given sufficient resources for the tasks now facing it?

5. What improvements have been made in internal audit training, particularly for those involved in computer audit?

6. What firm progress has been made so far in the areas of functional specialism and career development as a means of improving internal audit standards and performance?

7. How do you propose to maintain the initial impetus given by the Wass/Bancroft letters? What arrangements have the Treasury made to monitor progress by departments in improving standards; are you limited to giving advice or do you have a more positive role; and do you have enough qualified and sufficiently senior staff to ensure the necessary impact, particularly in the difficult early stages?

8.   Are there any areas of internal audit work where notable improvements have already been achieved during the past year?

9.   Have you agreed with departments the action necessary to bring computer audit up to an acceptable standard within three years? What are the main features of this action?

10.   What progresss has been made towards producing:

(a)   a fuller statement of audit standards and guidelines?

(b)   an internal audit manual?

(c)   a computer audit manual?

When do you expect these to be completed?

11.   What action has been taken following your letter to smaller departments and those responsible for executive non-departmental public bodies?

12.   What is your latest estimate of the timescale for bringing internal audit up to a satisfactory standard in both major and smaller departments?