

## Frequently Asked Question

Briefing from the Internal Audit Standards Advisory Board

### **The relationship between the annual internal audit report and the annual governance statement**

There are clear links between the annual internal audit report and the annual governance statement (AGS). Some auditors have asked for clarity on the relationship between the two documents.

#### **What do the Standards say?**

The Public Sector Internal Audit Standards (PSIAS) specifically refer to the AGS in the public sector requirements to two Standards, 1322 and 2450:

#### **2450 Overall Opinions**

Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

#### **1322 Disclosure of Non-conformance**

Public sector requirement

Instances of non-conformance must be reported to the board. More significant deviations must be considered for inclusion in the governance statement.

#### **Purpose of the annual report and the AGS**

The purpose of the annual report is to present the annual internal audit opinion, a summary of the work that supports the opinion and a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme. It needs to be written so as to inform the AGS and should be available for assessment at the appropriate time, when the AGS is being written. The annual report may also be used by the organisation in other ways; for example in local government it helps to inform the review of effectiveness.

The purpose of the AGS is to report publicly on the extent to which organisations comply with their own code of governance. The process of preparing the statement should itself add value to the effectiveness of the corporate governance and internal control framework.

The AGS is a high level and strategic document that will also contain any significant governance issues that may have been identified, including significant instances of non-conformance from the PSIAS.

#### **Conclusion**

The annual report is a key source of assurance underpinning the AGS, which in turn adds value to corporate governance in an organisation. CAEs should try to ensure, where possible, that the information and messages included in both documents are consistent, but ultimately the AGS is the responsibility of management.