

Introduction

Establishing an Internal Auditing Activity Manual is a guide for those who are implementing an internal auditing activity within their organizations for the first time, those who have recently been given responsibility for an internal auditing activity already in place, and those who want to improve their existing activity.

Internal auditing plays different roles in different organizations. In some it takes on the more historical role of verifier or checker to detect errors or fraud; in others it has a more expanded role that includes providing consulting services in addition to performing assurance reviews. Whatever the role, the internal auditing activity must be well planned, organized, staffed, directed, and monitored. It also must have in place policies and procedures that implement professional standards and systems that can ensure that the standards are followed in performing the work. This also includes ensuring that the work performed meets the expectations and the needs of internal auditing customers. The customer base for internal auditing is typically comprised of two groups, the board, senior management, and external third parties on one hand and operating and line management on the other.

It is the goal of this book to provide information and understanding on how an internal auditing activity should operate and enable an organization to initially establish the activity and begin functioning. Once a new internal auditing activity has been established the chief audit executive (CAE) will be able to identify any number of opportunities for improvement on an ongoing basis. While it would take many more pages to completely cover everything relating to establishing an internal auditing activity, what follows are the essentials. Spend the time and resources necessary to implement the steps outlined in this manual and the internal auditing activity will be able to assist the organization by improving the effectiveness of risk management, control, and governance.

Chapter 1: Why an Internal Auditing Activity? This chapter begins with a discussion of what corporate governance is and why it has recently been put under the spotlight. Once the meaning of corporate governance is understood, it is then easy to understand the importance of internal auditing's link to the establishment of an effective corporate governance structure.

The Institute of Internal Auditors (IIA) is the leader and the principal voice of the internal auditing profession. As such, The IIA has defined the role and the scope of the practice of internal auditing. This first chapter concludes with an introduction to the structure of The IIA's *Professional Practices Framework*, the *Standards for the Professional Practice of Internal Auditing (Standards)*, and The IIA's *Code of Ethics*.

Chapter 2: Expectations If an internal auditing activity is going to be successful, then all the stakeholders need to understand their expectations. What the board expects of the audit committee, senior management, the internal auditing activity, and what each should expect of the other is the focus of this chapter. Understanding the expectations of the stakeholders is the first step in establishing an internal auditing activity. The success of the next step — “planning” — will be driven by what the various stakeholders expect of internal auditing.

Chapter 3: Planning This chapter first addresses the identification and selection of the CAE and then the development of the Audit Charter. The charter documents and communicates the purpose, authority, and responsibility of the internal auditing activity. This is important because the charter establishes the independence of the internal auditing activity. Without independence, auditors will be unable to perform their work objectively and provide the stakeholders with the impartial and unbiased assurance and consulting activities that are expected.

Chapter 4: Organizing This chapter discusses the development of an organizational plan for the internal auditing activity. To whom the CAE will report to in the organization should be carefully planned. The CAE's relationship with the board and senior management will determine whether it can operate objectively. The chapter identifies several best practices that can help ensure independence and objectivity for the internal auditing activity.

Chapter 5: Staffing The CAE has been chosen and the purpose, authority, and responsibility of the internal auditing activity have been established. The next step is to decide how to staff the activity. Based on information provided by The IIA's Global Auditing Information Network (GAIN), this chapter starts off by providing some benchmarks from GAIN surveys on the size, education, experience, and professional certifications of internal auditing staff for a number of industries. It then continues with a discussion of the pros and cons of in-house, outsourcing, and co-sourcing staffing strategies and sources.

Chapter 6: Directing Once the staffing resources are in place the challenge becomes how to best use them. This chapter discusses the development of a simple risk assessment methodology and the building of an annual audit plan. While the risk assessment methodology is simplistic, it enables a CAE to quickly develop an audit plan based on risk. The chapter also includes discussions on the importance of managing project budgets and schedules. Examples of project and staff tracking spreadsheets are included in the Exhibits section of the manual.

Chapter 7: Monitoring This chapter outlines the seven IIA *Standards* that identify specific activities that must be part of every Quality Assurance (QA) program of every auditing activity. Quality assurance reviews are required by The IIA's *Standards*. Quality means that the appropriate policies and procedures are in place and the quality assurance program will provide reasonable assurance to management and the board that the work is being performed in accordance with the *Standards* and is adding value by improving an organization's operations.

The Exhibits The Exhibits contain examples of various items that are helpful in setting up the policies and procedures for a new internal auditing activity. These include an Internal Audit Charter, a Corporate Audit Policy, staff position descriptions, and other items that should provide the CAE with a good start toward establishing or improving an internal auditing activity.

Additional information includes a bibliography of resources used in developing this manual, information about The Institute of Internal Auditors, and an extensive resource

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list of products and services offered by The IIA that can provide additional guidance and education for helping establish an effective internal auditing activity.

Those responsible for the internal auditing activity play an integral role in good corporate governance for their organization. This manual is designed to help organizations establish an effective internal auditing activity or improve their existing activity. It is important to remember that the responsibilities of the internal auditing activity are constantly changing. The IIA has been instrumental in keeping internal auditors apprised of the constant changes, and those reading and using this manual are encouraged to visit The IIA's Web site at www.theiia.org often for information impacting the dynamic profession of internal auditing.