GETTING TO KNOW INTERNAL AUDITING

THE PROFESSION THAT MAKES A DIFFERENCE

Presenter:
Organization
Date

Presentation is complements of The IIA Academic Relations
• “Internal auditing is an independent, objective assurance and consulting activity 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.”
HIGH LEVEL COMPARISON

Internal Audit

- Broad focus
  - Accurate financials
  - Efficiency/effectiveness
  - Accomplishing objectives
  - Compliance w/laws, policy
  - Safeguarding assets
  - And more!
- Diverse skills sets are required
- Integral part of the organization

Financial Statement Audit

- Specific focus
  - Accurate financial statements
  - Going concern
  - Reviewing historical data
  - Compliance with accounting and other regulations
- Primarily accounting skills
- Independent from the organization
INTERNAL AUDITORS ASSESS RISK…

• To help keep bad things from happening
• To help assure good things can happen
• To help management understand
  – Where their risks are
  – Whether the risks are under control
  – Whether the risks are worth taking
FINDING RISKS IS NOT ENOUGH

• Internal auditors evaluate the controls that help organizations manage risks
  – Are controls in place?
  – Do the controls work?
  – Are additional controls needed?
  – Are there unnecessary controls?
  – Are the controls cost-effective?
FIVE CRITICAL TASKS

• Determine whether controls are adequate
• Suggest improvements to increase efficiency and effectiveness or to lower operating costs
• Determine whether policies and procedures are followed
• Determine whether laws and regulations are being obeyed
• Detect fraud or manipulation of records
EFFECTIVE GOVERNANCE

Board of Directors

Internal Audit

Management

External Audit
MAINTAINING INDEPENDENCE: DUAL REPORTING RELATIONSHIPS

• About 80 percent of Chief Audit Executives (CAEs) report functionally to the Audit Committee/Board of Directors
  – Independent from audited activities
  – Wide authority

• Most common administrative reporting relationship is to the President/CEO
MEETING DIVERSE STAKEHOLDER NEEDS

Key Stakeholders
• Audit committee/board
• CEO
• CFO or individual to whom CAE reports administratively
• Potentially, other chief officers

Secondary Stakeholders
• Other business unit executives
• External auditors and regulators
• Investors and creditors
• (Government audit) citizens and taxpayers

Tertiary Stakeholders
• Employees and retirees
• Investment analysts
• Potentially, the general public
INTERNAL AUDITORS

• Find out what’s working and what’s not
• Keep an eye on the corporate climate
• Look at the organization with fresh eyes
• Look beyond the financial statements
• Advocate improvements
• Raise red flags
• Tell it like it is
• Keep senior management aware of critical issues
• Ensure factual communications of financial, operational and compliance data
• Make suggestions based on knowledge of operations throughout the organization
WHAT WOULD YOU SAY...

• If someone asked you whether or not their organization needed internal auditors?
WHAT DOES A COMPANY NEED AN INTERNAL AUDIT FUNCTION?

• Internal audit is not legally required in the U.S.
  – Exceptions: NYSE-listed corporations and a few specific industry/government requirements

• Required in some countries

• Every organization, regardless of its size, should have some type of internal control system/process

• The IIA believes that an organization is best served by a fully resourced and professionally competent internal auditing function
WHAT WILL AN INTERNAL AUDIT FUNCTION ACCOMPLISH?

• Will it reduce liability or help control risks?
• Will it free management to focus on core mission?
• Will it improve the accuracy of financial and operational information?
• Do we need a second opinion?
• Can we improve service delivery?
• Will it improve financial results?
INTERNATIONAL PROFESSIONAL PRACTICES FRAMEWORK

• Mandatory Guidance
  – International Standards for the Professional Practice of Internal Auditing
  – Definition of Internal Auditing
  – Code of Ethics

• Strongly Recommended
  – Position Papers
  – Practice Advisories
  – Practice Guides

www.theiia.org or https://global.theiia.org
QUESTIONS?