

GETTING TO KNOW INTERNAL AUDITING

THE PROFESSION THAT MAKES A DIFFERENCE

Presenter:
Organization
Date



Presentation is complements of The IIA Academic Relations

WHAT'S INTERNAL AUDITING?

“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 RISKS...

- 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



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

AUDITORS 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?



WHEN 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

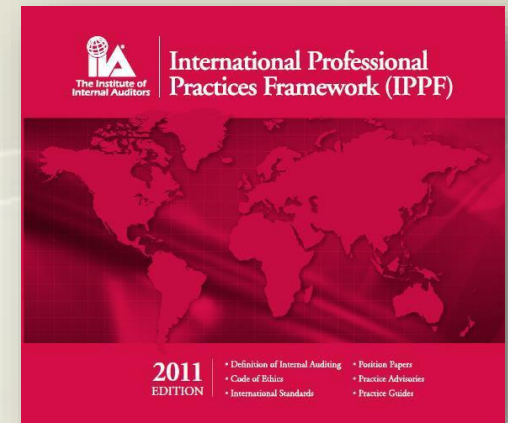
WHAT WILL AN INTERNAL AUDIT FUNCTION ACCOMPLISH?

- 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

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QUESTIONS?

