



THE BASICS

ALL IN A DAY'S WORK - A LOOK AT THE VARIED RESPONSIBILITIES OF INTERNAL AUDITORS

What Is Internal Auditing?

Internal auditing is an independent, objective assurance, and consulting activity designed to add value and improve an organisation's operations.

Who Are Internal Auditors?

Internal auditors are explorers, analysts, problem-solvers, reporters, and trusted advisors. They bring objectivity and a variety of skills and expertise to the organisation. They come from diverse areas such as finance, operations, IT, and engineering. Today's internal audit professionals are revered for their critical thinking and communication skills, as well as their general IT and industry-specific business knowledge.

INTERNAL AUDITORS

Typically employed by the organisation (unless the function is outsourced or co-sourced) though independent of the activities they audit.

Broad focus:

- ✚ Risk management
- ✚ Corporate governance
- ✚ Organisational objectives
- ✚ Operational efficiency and effectiveness
- ✚ Compliance with laws and policies
- ✚ Accurate financial statements
- ✚ And more!

Diverse backgrounds & skill sets:

- ✚ Communication skills
- ✚ Information technology
- ✚ Data mining & analytics
- ✚ Business & industry-specific knowledge
- ✚ Accounting skills

Backward-looking & forward-looking

Internal Audit Responsibilities

OFFER INSIGHT AND ADVICE

Internal auditors may offer insight regarding strategic risks and advice, though management must maintain ultimate responsibility for the processes in their area.

EVALUATE RISKS

It's the internal auditor's job to assess the significance of the organisation's many risks and the effectiveness of risk management efforts, communicate these to management and the board, and develop recommendations to improve risk management.

ASSESS CONTROLS

Internal auditors evaluate control efficiency and effectiveness and provide management and the board assurance that the controls in place are adequate to respond to the risks that threaten the organisation.

ENSURE ACCURACY

Internal auditors ensure financial statement accuracy. They examine the reliability and integrity of financial and operational information.

IMPROVE OPERATIONS

With a solid understanding of the organisation's objectives, internal auditors examine operations to determine whether they are efficient and effective.

PROMOTE ETHICS

Professional internal auditors agree to abide by a Code of Ethics that upholds the principles of integrity, objectivity, confidentiality, and competency.

Internal Audit Responsibilities (Cont.)**REVIEW PROCESSES AND PROCEDURES**

Internal auditors review operations closely and assess whether existing processes are well designed to help the organisation achieve its goals.

MONITOR COMPLIANCE

Internal auditors assess the organisation's compliance with applicable laws, regulations, and contracts to ensure that management is addressing these requirements adequately. They also offer insight into the impact that noncompliance would have on an organisation and inform senior management and the board of noncompliance.

ASSURE SAFEGUARDS

Internal auditors evaluate the procedures used to safeguard assets from theft, fire, illegal activities, or other types of loss.

INVESTIGATE FRAUD

Because fraud can affect any level of the organisation, it's important that the board of directors grants the internal audit function access to all records and authority to conduct audits and investigate possible fraudulent behavior throughout the organisation.

COMMUNICATE RESULTS

After auditing a particular area, internal auditors report their findings and recommend appropriate courses of action.

Source: <https://www.theiia.org/en/about-us/about-internal-audit/>

FOR GOVERNING BODIES**THE AUDIT COMMITTEE: INTERNAL AUDIT INSIGHT****Roles and Responsibilities**

Over the years, the roles and responsibilities of boards of directors — specifically, of the board's audit committee, if in existence — have become increasingly demanding and scrutinised. While today's audit committee must encompass a level of financial literacy, independence, and knowledge about risk management and internal control; individual audit committee members must be deeply committed, highly experienced, and fully qualified in order to effectively carry out their varied responsibilities.

Among the many important roles the audit committee plays within an organisation, is to provide internal audit oversight.

Best practice indicates that the audit committee should define in its charter the scope of its relationship with the internal auditors and should work to enhance its oversight ability — subsequently strengthening the internal audit activity.

Empowerment and Expectations

The audit committee, in concert with executive management, can play a critical role in empowering and elevating the image of the internal audit activity, ensuring that it is not misunderstood.

By routinely communicating its value throughout the organisation, those at the top can and should promote the importance of the internal audit activity. They can position the function as fully empowered to provide a critical check for management, to be a knowledgeable provider of assurance and a revered consultant, and to add value to the organisation's governance, risk management, and internal control processes.

To provide adequate oversight of internal auditing, an audit committee should ensure the following:

- 1 The audit committee engages in an open, transparent relationship with the chief audit executive (CAE).
- 2 The audit committee reviews and approves the internal audit charter annually.
- 3 As a result of discussions with the CAE, the audit committee has a clear understanding of the strengths and weaknesses of the organisation's internal control and risk management systems.
- 4 The internal audit activity is sufficiently resourced with competent, objective internal audit professionals to carry out the internal audit plan, which has been reviewed and approved by the audit committee.
- 5 The internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee.
- 6 The audit committee addresses with the CAE all issues related to internal audit independence and objectivity.
- 7 The internal audit activity is quality oriented and has in place a Quality Assurance and Improvement Programme.
- 8 The audit committee regularly communicates with the chief audit executive about the performance and improvement of the CAE and the internal audit activity.
- 9 Internal audit reports are actionable, and audit recommendations and/or other improvements are satisfactorily implemented by management.
- 10 The audit committee meets periodically with the CAE without the presence of management.

Quality of Internal Audit Performance

❖ **Overseeing Quality**

Inherent in the audit committee charter is its responsibility for monitoring and reviewing the performance of the internal audit activity. The CAE should report to the audit committee on the performance of the audit plan.

❖ **Auditing The Internal Auditors**

The internal audit activity is a part of an organisation's risk universe and should be assessed. That is the role of the external quality assessment (QA) team — an independent group of professionals who are well-versed in best internal audit practices, under the leadership of an experienced and professional project manager.

The objectives of an external QA team are to evaluate the efficiency and effectiveness of the internal audit activity within the organisation, to make best-practice recommendations for improvement, and to determine whether the activity is in conformance with the *Standards*.

❖ **Rest Assured**

The CAE's reports on the status of the activity's Quality Assurance and Improvement Programme should provide to the audit committee assurance of the internal audit activity's quality. This assurance is derived from a variety of sources:

- Internal assessments
- Action plans
- External QAs
- External auditors

By establishing an open and trusting relationship with the CAE, clearly delineating your expectations of the internal auditors, being attentive to all reports provided, and asking the right questions, you and the entire audit committee can stay up to date on the internal audit activity.

Source: <https://www.theiia.org/en/about-us/about-internal-audit/>

FOR GOVERNING BODIES

VALUE PROPOSITION: INTERNAL AUDITING'S VALUE TO STAKEHOLDERS

To help internal audit activities effectively communicate the value of their work to primary stakeholders — such as audit committees, boards of directors, management, and audit clients — The IIA has developed an easy-to-understand message tool. It’s memorable and adaptable.

Communicated visually by three intersecting circles, the “value proposition” is based on the three core elements of value delivered by internal auditing to an organisation: assurance, insight, and objectivity. Focusing on these three core internal audit concepts within your communication with stakeholders will enable them to understand the core value your internal audit activity provides.



**INTERNAL AUDITING
= ASSURANCE, INSIGHT & OBJECTIVITY**

ASSURANCE = **Governance, Risk & Control**

INSIGHT = **Catalyst, Analyses, & Assessments**

OBJECTIVITY = **Integrity, Accountability, & Independence**

Source: <https://www.theiia.org/en/about-us/about-internal-audit/value-proposition/>

STANDARDS AND PROFESSIONALISM

AUTHORITATIVE GUIDANCE - INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)

Standards are principle-focused and provide a framework for performing and promoting internal auditing. The *Standards* are mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organisational and individual levels.
- Interpretations, which clarify terms or concepts within the statements.
- Glossary terms.

It is necessary to consider both the statements and their interpretations to understand and apply the *Standards* correctly. The *Standards* employ terms that have been given specific meanings as noted in the Glossary, which is also part of the *Standards*.

- [VIEW THE 2017 STANDARDS](#)
- [INTRODUCTION TO THE STANDARDS](#)
- [ATTRIBUTE STANDARDS](#)
- [PERFORMANCE STANDARDS](#)

Source: <https://www.theiia.org/en/standards/what-are-the-standards/mandatory-guidance/standards/>

If you missed out the previous issues of e-techline, you may visit our website at <https://iiam.com.my/technical-qa-services/e-techline/>.