

ADVANCED AUDIT AND ASSURANCE

CORPORATE LEVEL

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INTERNAL AUDITING – (PART 03)



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by

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INTERNAL AUDIT – (PART 03)

Management of Internal Audit

The Chief Internal Auditor should manage the Internal Audit Department properly, following features are considered as important features of a properly managed Internal Audit Department.

- A) A Statement of Purpose, Authority and Responsibility
- B) Written Policies and Procedures
- C) A programme for personnel management and development
- D) A Quality Assurance System
- E) Coordination with External Auditors
- F) Thorough Planning

An Internal audit department should plan its work carefully through preparation of Strategic, Tactical and Operational plans

A) Strategic Audit Planning

The strategic plan sets out the audit objective in broad forms, including Areas to be Covered, Frequency of Coverage and estimates of Resource Requirements. Usually, Strategic plan covers a period of two to five years and the regular review is required

B) Tactical Audit Planning

Once the Internal Auditors have set the Strategic Audit Plan, it is required to prepare the Tactical Audit Plan. Basically, it takes the areas of work laid down in the Strategic Plan and match them to Audit Resources and Timetables. Followings are the key features of Tactical Audit Planning

- ✚ Programme of internal Audits to be carried out
- ✚ Detailed definition of the objectives of each audit
- ✚ Detailed allocation of audit resources

C) Operational Audit Planning

An operational internal audit plan will be drawn up for each individual audit. Followings are the key features of Operational Audit Planning

- ✚ Detail audit objectives
- ✚ The extent of coverage and areas to be given emphasis
- ✚ Target dates for individual audits
- ✚ Name of the Auditors responsible for or involved in the completion of the audit

Annual Review of Internal Audits

The board or audit committee should conduct an annual review of the internal auditors' work. The reviews should include the following areas.

A) Scope of work

- ✚ The review will be particularly concerned with the work done to test:
- ✚ The adequacy, effectiveness and value for money of internal control
- ✚ Risk assessment and management processes
- ✚ Compliance with laws, regulations and policies
- ✚ Safeguarding of assets
- ✚ Reliability of information
- ✚ Value for money
- ✚ Attainment of organisation's objectives and goals

B) Authority

The review should cover the formal terms of reference and assess whether they are adequate. It should consider whether there are senior personnel in the organisation who can ensure that the scope of internal audit's work is sufficiently broad, that there is adequate consideration of audit reports and appropriate action on audit findings and recommendations.

C) Independence

The review should consider carefully whether there are adequate safeguards in place to ensure the independence of internal audit. These include reporting by the head of internal audit to the audit committee, dismissal of the head of internal audit being the responsibility of the board or audit committee, internal auditors not assuming operational responsibilities and internal auditors being excluded from systems, design, installation and operation work.

D) Resources of Internal Audit

The review should consider the documentation provided by internal audit and confirm that resourcing plans indicate that there will be sufficient resources to review all areas. This should be assessed not just in terms of the hours set aside but also physical resources such as computers, and also of course the necessary knowledge, skills and experience.

Internal Audit Engagements

Internal audit can be involved in many different assignments as directed by management. These can range from value for money projects to operational assignments looking at specific parts of the business.

a) Value for money audits

The purpose of a value for money (VFM) audit is to examine the **economy, efficiency and effectiveness** of activities and processes within a business.

Economy: Attaining the appropriate quantity and quality of physical, human and financial resources (inputs) at lowest cost. An activity would not be economical if, for example, there was overstaffing or failure to purchase materials of requisite quality at the lowest available price.

Efficiency: This is the relationship between goods or services produced (outputs) and the resources used to produce them. An efficient operation produces the maximum output for any given set of resource inputs, or it has minimum inputs for any given quantity and quality of product or service provided.

Effectiveness: This is concerned with how well an activity is achieving its policy objectives or other intended effects.

b) Fraud Investigations

In general, Fraud Investigations are carried out,

- ✚ To determine whether fraud risk management controls are adequate to ensure that fraud is prevented and/or detected and to make recommendations if they are not
- ✚ To determine whether a fraud has actually occurred based on information which has come to light.

When evaluating the effectiveness of fraud risk management controls the internal auditor will:

- ✚ Evaluate the risk of fraud in the organisation
- ✚ Evaluate the potential for fraud to take place
- ✚ Assess whether fraud controls are sufficient and if not, make recommendations for improvements
- ✚ Assess whether fraud controls are operating effectively and if not investigate the reasons why

c) Financial audits

The financial audit is internal audit's traditional role. Its purpose is to evaluate the operating effectiveness of the key business processes which relate to the financial statements. It involves reviewing all the available evidence to substantiate information in management and financial reporting. The substantive procedures and tests of controls employed by external audit are also used by internal audit.

The importance of controls in preventing financial reporting errors means that it is necessary to review certain areas regularly to ensure the relevant controls continue to be in place. Many internal audit functions will therefore adopt a cycle approach to financial internal audit engagements to ensure each area is reviewed on a regular basis.

d) Regulatory Compliance Audit

The regulation which affects the companies will vary depending on the nature of the organisation. Some regulations will be specific to the industry the clients operates and some will be apply to all companies operating in a region or country. The purpose of the Compliance Audit is to assess the effectiveness of the business systems and processes that are designed to ensure that the company complies with the relevant laws and regulations

e) Information Technology Audits

IT audit is a Test of Controls in a specific area of the business, the Computer Systems. Increasingly in modern business, computers are vital to the functioning of the business and there fore the control over them are key for the business organization.

f) Operational Audits

Operational Audits are the audits of the operational process of the organization. They are also known as Management or Efficiency Audits. The prime objective is the monitoring of Management Performance, ensuring that the company policy is adhered to.

g) Customer Experience Audits

The purpose of a customer experience audit is to help a business understand how it manages its customer relationships and to maximise the potential value of its customers. This will involve evaluating the existing 'customer journey' in order to identify any improvements which can be made and the systems which need to be in place.

The precise nature of the audit will depend on the type of business involved and the nature of the customer relationships. Typically, however, the internal auditor will consider the following issues:

- ✚ The types of customers from which the business generates the most revenue
- ✚ What the customer values most about the company's goods/services
- ✚ The extent to which the company retains customers
- ✚ The rate at which customer interest is converted into sales
- ✚ Key areas of customer dissatisfaction

Regulatory Framework of Internal Auditing

The International Professional Practices Framework (IPPF) is the conceptual framework that organises the guidance promoted by The Institute of Internal Auditors, The IIA provides internal auditors with guidance which is categorised as either **mandatory or strongly recommended**.

The internal audit practise is governed by, the International Professional Practices Framework issued by the Institute of Internal Auditors (IIA), whereas IPPF has two different guidance where Internal Auditors must follow

- A) Mandatory Guidance
- B) The Strongly Recommended Guidance

Mandatory Guidance

Conformance with the principles set forth in mandatory guidance is compulsory. The three mandatory elements of the IPPF are:

-  Definition of Internal Auditing
-  Code of Ethics
-  International Standards for the Professional Practice of Internal Auditing (Standards)

The structure of the IIA standards is divided between **Attribute and Performance standards**.

Attribute Standards address the attributes of organisations and individuals performing internal auditing.

Number	Title
1000	Purpose, Authority and Responsibility
1100	Independence and objectivity
1130	Impairment to independence or objectivity
1200	Proficiency and due professional care
1300	Quality assurance and improvement programme

The Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured

Number	Title
2000	Managing the Internal Audit Activity
2100	Nature of Work
2200	Engagement Planning
2300	Performing the Engagement
2400	Communicating Results
2500	Monitoring Progress
2600	Communicating the Acceptance of Risk

The Strongly Recommended Guidance

The Three Strongly Recommended elements of IPPF are

- Position Papers
- Practice Advisories
- Practice Guides

Additional Notes.

Dotted lines for writing additional notes.

