Risk-based auditing and the internal auditor

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Brasilia
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The Institute of Internal Auditors

Topics addressed

- The IIA
- INTOSAI and The IIA
- Internal auditing
- Risk-based internal auditing
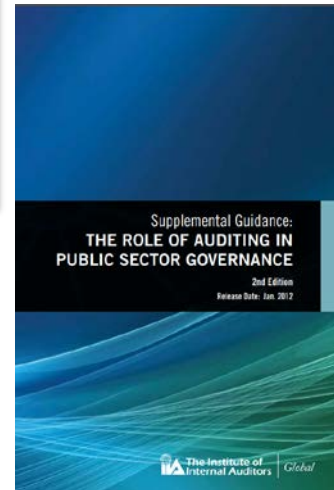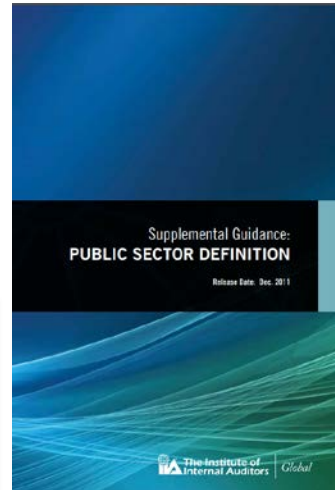- Opportunities for collaboration
- Q&A

The IIA

The IIA

- Founded in 1941
- Over 190,000 members worldwide
- Around 40% in the public sector
- *International Professional Practices Framework* (IPPF)
- Certified Internal Auditor (CIA) designation

Some useful public sector guidance

Demonstrates that IIA and INTOSAI standards are consistent

GLOBAL PUBLIC SECTOR INSIGHT
The IIA and The International Organization of Supreme Audit Institutions (INTOSAI)

A COMPARISON OF AUTHORITATIVE GUIDANCE FRAMEWORKS
Release Date: 1Q 2016

The Institute of Internal Auditors | Global

Supplemental Guidance:
PUBLIC SECTOR DEFINITION
Release Date: Dec. 2011

The Institute of Internal Auditors | Global

Supplemental Guidance:
THE ROLE OF AUDITING IN PUBLIC SECTOR GOVERNANCE
2nd Edition
Release Date: Jan. 2012

The Institute of Internal Auditors | Global

Global Public Sector Insight:
INDEPENDENT AUDIT COMMITTEES IN PUBLIC SECTOR ORGANIZATIONS
Release Date: June 2014

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The IIA and INTOSAI

The IIA and INTOSAI

- Common goals
  - Greater accountability, transparency, effectiveness, efficiency, and economy in government
- Long-standing relationships (globally and locally)
  - Renewing our global MOU
- Representation on each other's committees
  - Especially standard-setting and oversight
  - Other key initiatives
- Very similar approaches
- Comparable standards and methods
- Importance of independence and objectivity

# Internal audit and SAIs: differences

	SAIs	Internal audit
Scope	Pan-government	Entity-wide (but may be wider depending on structure)
Reporting line	Parliament	<u>Functionally</u> to the board or equivalent <u>Administratively</u> to chief accounting officer, CEO, other
Audits and consulting	Compliance, financial, performance	Wide ranging

Internal auditing

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Internal audit

- **Mission**: "to enhance and protect organizational value by providing risk-based objective assurance, advice, and insight."

- **Definition**: "…independent, objective assurance and consulting activity…to add value and improve an organization's operations."

Three lines of defense
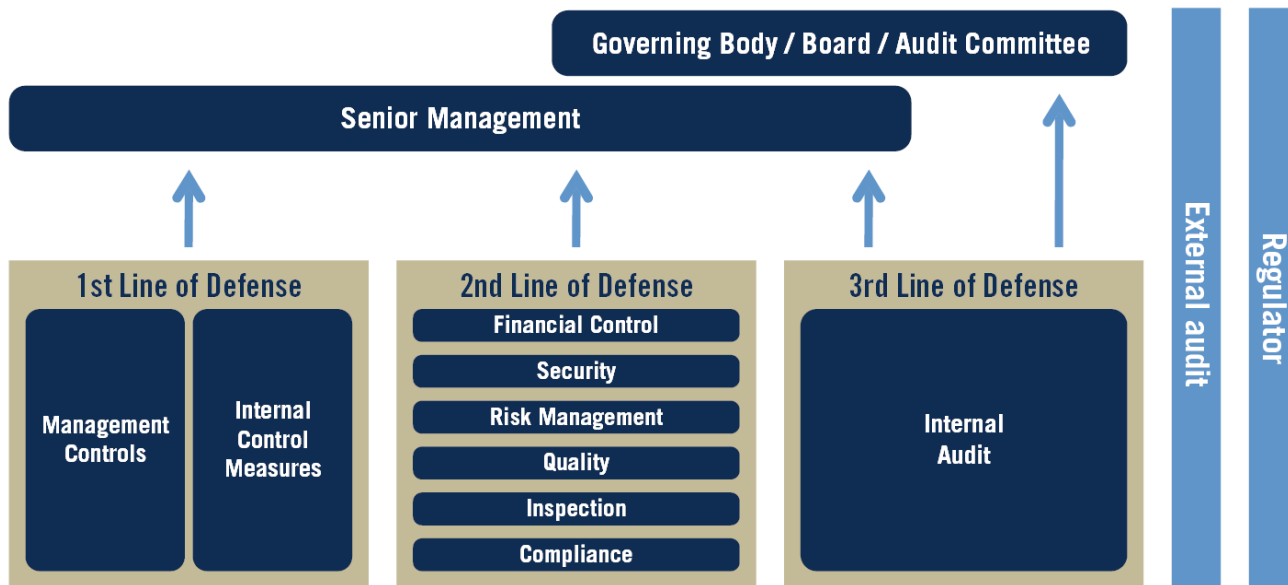
Fundamental principles

- **<u>Independence</u>**:
  - Despite often being within an entity
  - "Freedom from conditions that threaten the ability…to carry out internal audit responsibilities in an unbiased manner."
    - Direct and unrestricted access to senior management and the board
    - Functional reporting to an independent audit committee or similar
    - Administrative reporting to the highest possible level within the organization

Fundamental principles

- **<u>Independence</u>** (continued):
  - Role of audit committee:
    - Approve the internal audit charter (including free and unfettered access to all individuals and resources needed)
    - Approve risk-based internal audit plan
    - Approve internal audit budget
    - Receive reports from the CAE
    - Hire/fire the CAE
    - Approve remuneration of CAE
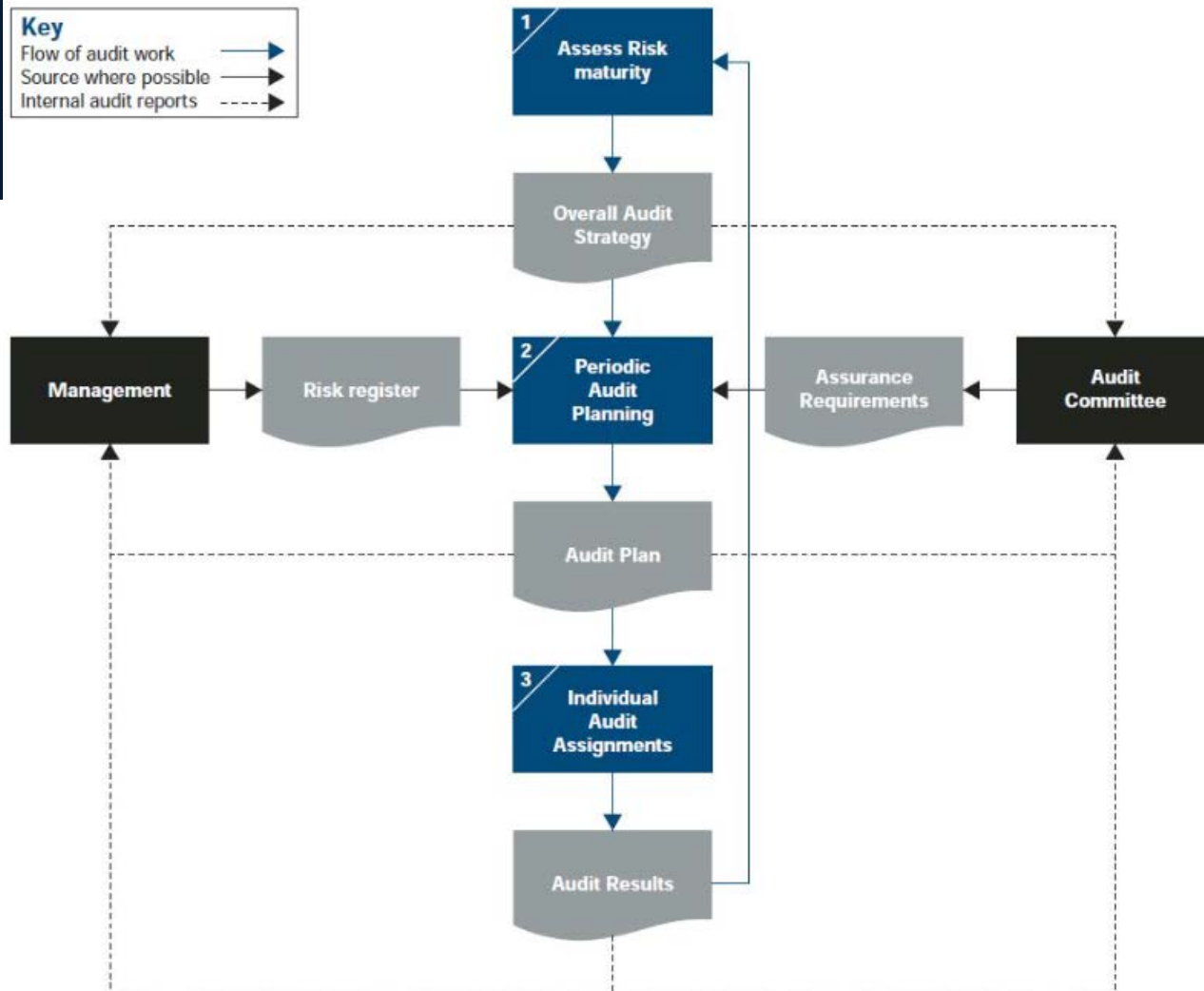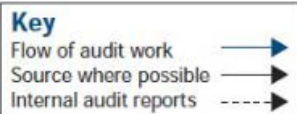   - Ensure adequate resourcing

Fundamental principles

- **<u>Objectivity</u>**:
  - "…impartial, unbiased attitude…avoid any conflict of interest"
  - Including any *appearance* of threats to independence or objectivity
  - Achieved through
    - Specific standards and guidance
    - Systematic, disciplined approach
    - Appropriate supervision
    - Internal and external quality reviews
    - Oversight by audit committee

Risk-based internal auditing

Risk-based internal auditing

- Links internal auditing to the overall risk management framework

- Allows internal audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite

Key
Flow of audit work ───▶
Source where possible ───▶
Internal audit reports ----▶

1 Assess Risk maturity

Overall Audit Strategy

Management → Risk register → 2 Periodic Audit Planning ← Assurance Requirements ← Audit Committee

Audit Plan

3 Individual Audit Assignments

Audit Results

Opportunities for collaboration

Internal Audit and SAIs

- Opportunities for collaboration and cooperation
  - SAIs' reliance on the work of internal audit (especially performance audit, compliance audit, and financial audit)
  - Internal audit's assurance mapping and coordination
  - Discussions ahead of SAI audits
  - Inclusion of items in the internal audit plan of interest to SAIs

Direct Reliance

Direct reliance
> ➤ internal auditors working as part of the external audit team

Strengths
- Involves the assignment of scope areas to internal auditors
- Leverages internal audit expertise and perspectives
- Allows for internal auditors to exercise professional judgment
- More efficient use of resources for both the external party and the entity

Requirements
- **Trust** in internal auditors' competence

Direct Assistance

Direct assistance

➢ internal auditors working on limited testing as contributors

Strengths

- Involves the assignment of testing to internal auditors, with high level of supervisory review
- Considers internal audit expertise and perspectives
- Does not allow internal auditors to exercise professional judgment
- Efficient use of resources for the external party

Requirements

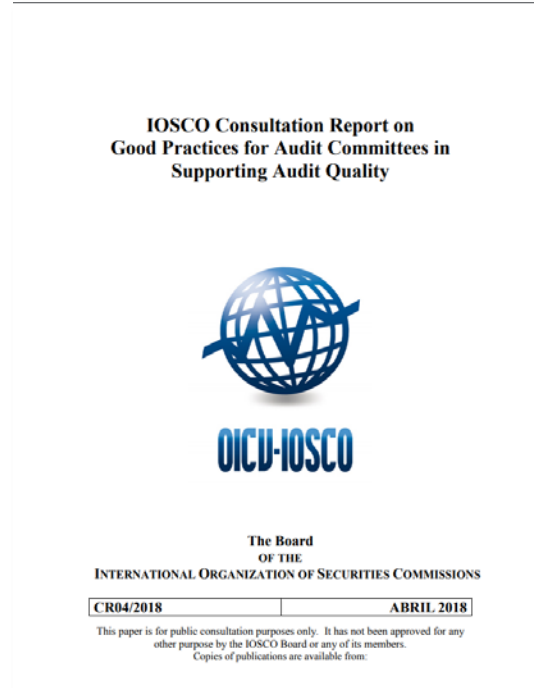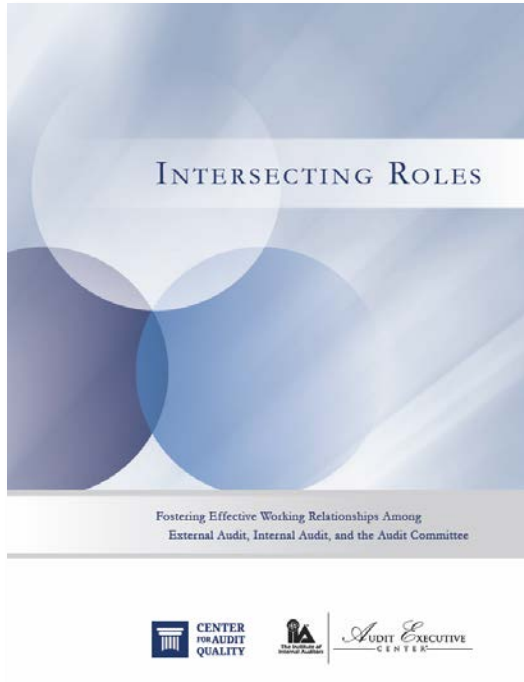- **Trust** in internal auditors' competence

Establishing Trust in Internal Audit

- **External Quality Assessments** – consistent demonstration of competence and conformance with professional auditing standards
- **Internal audit independence** – functional reporting relationship to highest governing body; no impediments to auditing high-risk areas
- **Dynamic audit results** – audits focused on broad areas of the organization and include evaluation of financial, operational, regulatory, strategy and culture
- **Staff Competence and Proficiency** – high degree of credentialed staff with solid tenure and high performance
- **Experience with internal auditor** – usually begins with direct assistance and evolves to direct reliance

Sustainable Development Goals

- Internal audit can support SAIs
  - As joint stakeholders in good governance
  - As educators and ambassadors for sustainable development goals in government entities
  - In tying together a fragmented local picture into an aggregated national picture
  - In validating data and reports coming out of government entities
  - As partners for achieving policy coherence and integration
  - As a resource (up to 80,000 IIA members in government) to draw upon that is expert in governance, risk, and control, process analysis, risk management and analysis, operating to comparable standards for independence, objectivity, quality, evidence etc.

Other relevant papers

INTERSECTING ROLES

Fostering Effective Working Relationships Among
External Audit, Internal Audit, and the Audit Committee

CENTER FOR AUDIT QUALITY

The Institute of Internal Auditors

Audit Executive CENTER

**IOSCO Consultation Report on
Good Practices for Audit Committees in
Supporting Audit Quality**

OICU-IOSCO

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Q&A

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