Focussing on RISK

INTRODUCTION

TO INTERNAL

AUDITING

Please view landscape 'Full Screen Mode' using Adobe Acrobat Reader where possible.

Welcome. My career has involved managing internal audit teams and audit training programs as well as writing about risk based auditing and related topics. More recently, I decided to prepare a series of simple guides focussing on Business Risk and how it can be best managed. I hope you enjoy your *e*Guides.
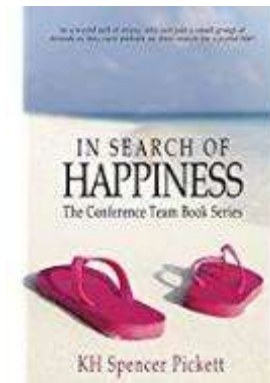
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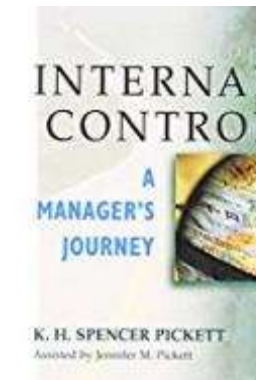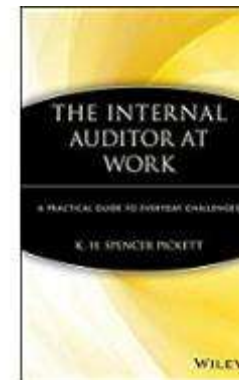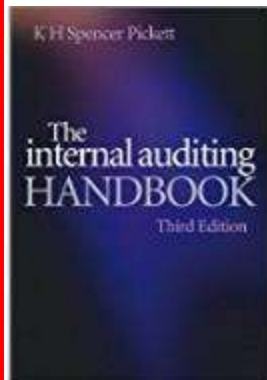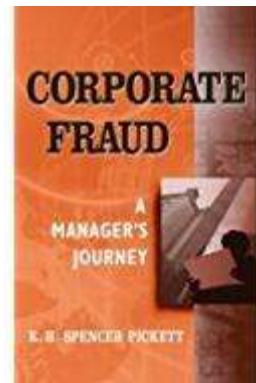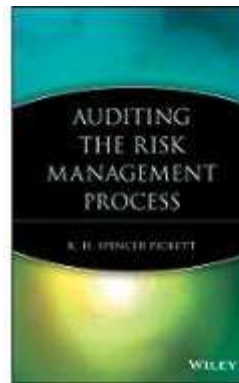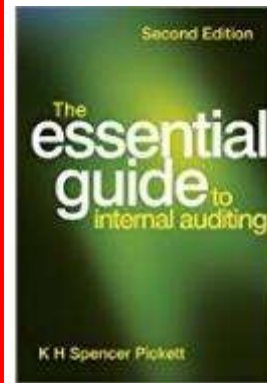
Spencer's eLearning Courses:

The Internal Audit Training Portal

Whistleblowing: When Should You Act?

Essential Fraud Awareness Training

Available at: Elearningmarketplace.co.uk

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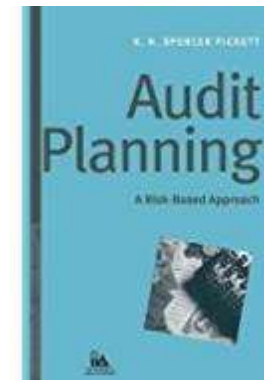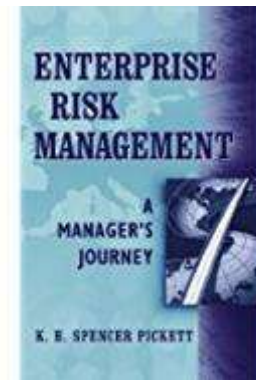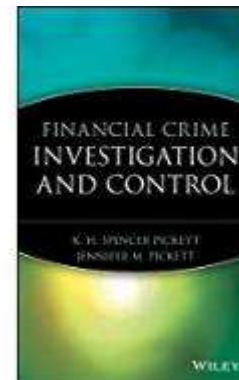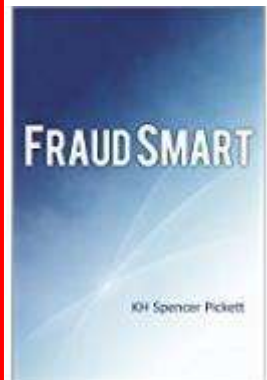
Your eGuides contain basic introductory material to help you deal with risk at work.

You should view this PDF using Adobe Acrobat Reader. For best results use landscape, 'Full Screen Mode'.

Your eGuide may only be viewed by persons authorised to do so under the purchasing terms and conditions.

Please note that you may not share or copy this PDF.

Introduction to Internal Auditing

We have developed a basic introductory guide to internal auditing.

For authoritative guidance on this topic, please contact the Institute of Internal Auditors:

Global.theiia.org

Intro

Introduction to Internal Auditing

BCT

PART ONE:
YOUR TEMPLATE BRIEFING
For those who want an introductory briefing, Part One will take you swiftly through the Template on your right. After which you can simply stop if all you need is a short introduction to the topic.

PART TWO:
YOUR TUTORIAL
Your eGuide includes a Training Tutorial that provides a formal introduction to the topic based around your Template. There are also a few 'Read On If You Want More Details' pages which you can explore or just skim through.

Your Template

Introduction to Internal Auditing

Oganizational objectives

Audit Charter

Management's Needs

Resource Implications

Audit Budget

Assess risk priorities

Resource prioritized areas

Audit strategic plan

Annual audit plan

Quarterly audit plan

Outline objectives statement

Preliminary survey

Assignment plan

THE AUDIT

THE AUDIT REPORT

Annual Audit Report

Quarterly Audit Report

Your Template Briefing

We'll be running through each part of your Internal Auditing Template.

Introduction to Internal Auditing

Organizational objectives

Audit Charter

Management's Needs

Resource Implications

Audit Budget

Assess risk priorities

Resource prioritized areas

Audit strategic plan

Annual audit plan

Quarterly audit plan

Outline objectives statement

Preliminary survey

Annual Audit Report

Quarterly Audit Report

THE AUDIT

Assignment plan

THE AUDIT REPORT

Professional Internal Auditing

But first, let's get you to do some work. Have a look at each statement and tell me whether they are true or false.

The answers are on the next page.

Your Template Briefing

Introduction to Internal Auditing

Some Statements	True or False
1. The internal audit role is to report to investors on the adequacy of the governance arrangements.	
2. Managing business risks is the responsibility of the management while audit are custodians of operational procedures.	
3. The auditor works for management and is part of the management team.	
4. The internal auditor must ensure that controls are observed by everyone. If not, we are looking at disciplinary action.	

Your Template Briefing

Some Statements	Are they True or False?
1. The internal audit role is to report to investors on the adequacy of the governance arrangements.	Not really. The main board is responsible for corporate governance and reporting back to their stakeholders. Internal audit will review governance, risk and controls and report back to the responsible management, the board and audit committee on the results.
2. Managing business risks is the responsibility of the management while audit are custodians of operational procedures.	The first part is correct. The board will want to ensure there is a sound risk management process in place. But it is a management task to design this process and ensure everyone is involved in making this work across the business. Management is also responsible for procedures and the way they are used. Internal audit review the way this is done, and help where possible.
3. The auditor works for management and is part of the management team.	Yes and no. The auditor works for the organization with a reporting line to a senior director. But there is also a dotted line to the board and audit committee to underpin audit independence. As such, the auditor is not part of the management team that is responsible for designing and implementing controls. We'll be looking at this issue later.
4. The internal auditor must ensure that controls are observed by everyone. If not, we are looking at disciplinary action.	Sorry, this is not always the case. Controls should be observed but where this does not happen, we need to think about the reasons. The net result will not necessarily mean disciplinary action, unless this is warranted. Also, it is not the auditor's job to get non-compliant staff disciplined.

Introduction to Internal Auditing

Do you know enough about internal auditing concepts? This is your chance to find out.

We have developed a simple resource that represents the minimum you should know along with a few basic tips. Rather than deal with detailed techniques and auditing procedures, we only deal with basic concepts.

The idea is to get you thinking about your role and encourage you to do a bit more.

Let's get cracking on Part One and hopefully you can stay with us and get involved in Part Two.

Your Template Briefing

Introduction to Internal Auditing
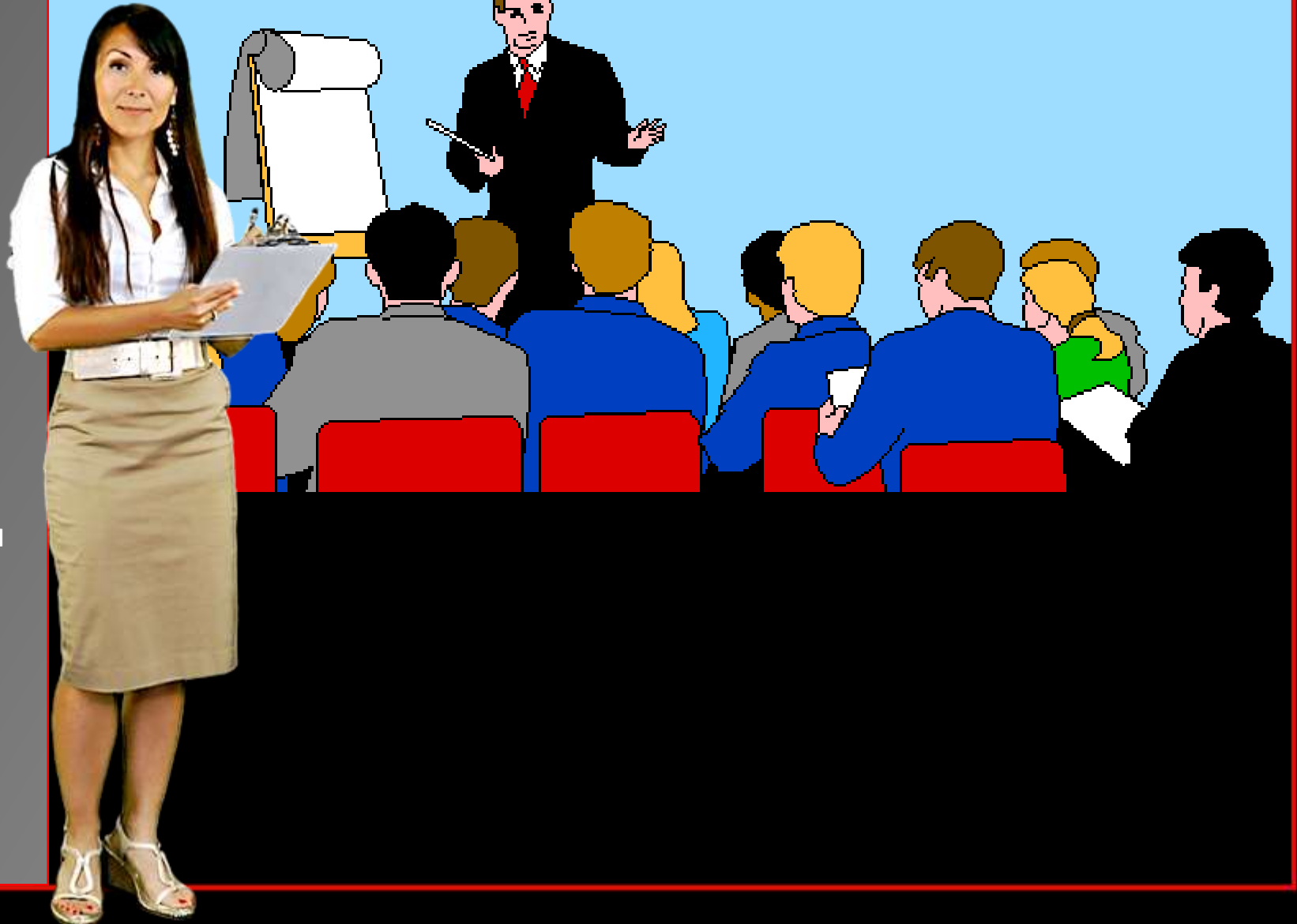
ORGANIZATIONAL OBJECTIVES

Let's start with a brief outline of your Template.

The starting place for audit work must be the objectives of the organization.

The board will formulate their goals and aspirations which will drive internal audit effort, inspired by these goals.

Audit does not have its own set of objectives that have no link into the wider efforts of the organization to succeed. This means not only acknowledging organizational goals but also being engaged with the corporate effort to deliver good results.

Oganizational objectives

Audit Charter

Management's Needs

Resource Implications

Audit Budget

Assess risk priorities

Resource prioritized areas

Audit strategic plan

Annual audit plan

Quarterly audit plan

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

Annual Audit Report

Quarterly Audit Report

THE AUDIT REPORT

Let's Deal With:
OBJECTIVES

AUDIT CHARTER

This sets out the role and responsibilities of the internal audit function and the scope of audit work.

The charter will cover important issues such as audit independence, the reporting line to the board and audit committee and the scope of audit work.

It will make clear the balance of assurance and consulting work and other audit services such as promoting fraud awareness, ad hoc investigations and so on.

The charter will be approved by the board and audit committee and should be reviewed on a regular basis.

Your Template Briefing

Introduction to Internal Auditing

Organizational objectives

Audit Charter

Management's Needs

Resource Implications

Audit Budget

Assess risk priorities

Resource prioritized areas

Audit strategic plan

Annual audit plan

Quarterly audit plan

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

Annual Audit Report

Quarterly Audit Report

THE AUDIT REPORT

Let's Deal With:
THE AUDIT CHARTER

CLIENT NEEDS AND AUDIT RESOURCE BUDGET

Here the issues and concerns regarding the integrity of governance, risk and controls that face senior and middle management should drive the way audit resources are assigned to deliver the agreed audit products.

Suitable audit resources for these high risk areas must be provided and the Chief Audit Executive (CAE) is well advised to present a business case for the adopted planning approach (particularly where we move away from a cyclical approach) for approval by the board/audit committee.

The audit budget will then set out the funding arrangements required to support the audit function and therefore support the agreed Annual Audit Plan.

Oganizational objectives

Audit Charter

Assess risk priorities

Management's Needs

Resource prioritized areas

Audit strategic plan

Resource Implications

Annual audit plan

Annual Audit Report

Audit Budget

Quarterly audit plan

Quarterly Audit Report

Outline objectives statement

THE AUDIT

Preliminary survey

Assignment plan

THE AUDIT REPORT

Introduction to Internal Auditing

Let's Deal With:
CLIENT NEEDS

RISK PRIORITIES AND RESOURCES

The relative risks of each audit area must be identified, with reference to the corporate risk profile and the concept of an audit universe of auditable areas. There really needs to be a clear link between the risks facing an organization and the audit plans to cover the organization. Audit will respond accordingly with a planning framework that represents the best way to deal with risks impacting the business. Whatever planning format is adopted, the CAE should ensure audit priorities:

➢ fit with the way the organization responds to corporate governance.

➢ is mainly driven by the corporate risk profiles.

➢ the board/audit committee accepts that this is the best way to apply audit resources.

➢ underpin and links into the annual assurances that the CAE provides on risk and controls management.

➢ are dynamic, flexible and responds to the changing demands of risk management and accountability.

Let's Deal With:
RISK PRIORITIES

AUDIT STRATEGIC PLAN

A plan to reconcile workload with existing resources should be developed. This should take on board the various constraints and opportunities that are influential now and in the future.

The audit strategic plan takes us from where we are, to where we wish to be over a defined time frame, having due regard for the audit budget.

Many audit units prepare a 3 or 4 year rolling place that is developed from their overall strategy and which supports and feeds into their annual audit plan.

Good strategies may cover the entire audit effort including the audit staff, automated data analysis tools, support staff and equipment applied to delivering audit services.

Oganizational objectives

Audit Charter

Management's Needs

Resource Implications

Audit Budget

Assess risk priorities

Resource prioritized areas

Audit strategic plan

Annual audit plan

Quarterly audit plan

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

Annual Audit Report

Quarterly Audit Report

THE AUDIT REPORT

Let's Deal With:
AUDIT STRATEGIC PLAN

Your Template Briefing

Introduction to Internal Auditing

Your Template Briefing

ANNUAL AUDIT PLAN

A formal audit plan for the year ahead is expected by most audit committees. A risk based planning framework should represent the way resources are assigned to the specific needs of the organization.
The planning timetable needs to be both fixed and flexible to respond to changing risks, for example:

Nov: start the new planning process and build in extra capacity for consulting requests for management (via a formal assessment criteria).

Dec: draft risk assessments and review of the corporate risk database. One audit team uses the following allocations of productive audit time that is assigned in outline to: 50% annual audit plan, 20% emerging risk issues, 7% special investigations, 20% special projects, 3% follow-up.

Jan/Feb: analyse information and talk to senior management/board on agreed consulting projects

March: finalize the plan with the audit committee, and publish the plan to go live in April.

Introduction to Internal Auditing

Let's Deal With:
THE ANNUAL AUDIT PLAN

Spencer's eGuides

Your Template Briefing

QUARTERLY AUDIT PLAN

A quarterly plan can be derived from the annual plan. Most organizations experience constant change, some of which may be unforeseeable, which means the quarter can be an ideal time-slot for planning realistic audit work around the shifting risk landscape.

1. Build in the planned and unplanned absences of individual auditors.

2. Plan audit cover weekly as the basis of a work program for each individual auditor.

3. Enter projected dates for each audit, giving the week for planned start and finish.

4. Allocate projects to auditors. This sets the right resources to the right projects in line with factors such as skills, experience, interests, and career development.

5. Reprioritize projects on the annual plan as the quarterly plans are prepared and reviewed.

As the quarterly plan changes, the annual plan may be re-set to reflect new developments. This may be seen as the rolling annual audit plan.

Organizational objectives

Audit Charter

Assess risk priorities

Management's Needs

Resource prioritized areas

Audit strategic plan

Resource Implications

Annual audit plan

Annual Audit Report

Audit Budget

Quarterly audit plan

Quarterly Audit Report

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

THE AUDIT REPORT

Introduction to Internal Auditing

Let's Deal With:
THE QUARTERLY AUDIT PLAN

OUTLINE OBJECTIVES STATEMENT

Audit management can make a one-line statement of expectations from an audit from work done so far in the planning process.

We already said that audit planning must start with the objectives of the organization. The active liaison with senior and middle management to develop audit plans means the outline objective statement for each audit will be aligned to organizational objectives. Your Template retains this all-important alignment.

In this way, the relative risks of each audit can be identified, with reference to the corporate risk profiles.

Organizational objectives

Assess risk priorities

Audit Charter

Resource prioritized areas

Management's Needs

Audit strategic plan

Resource Implications

Annual audit plan

Annual Audit Report

Audit Budget

Quarterly audit plan

Quarterly Audit Report

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

THE AUDIT REPORT
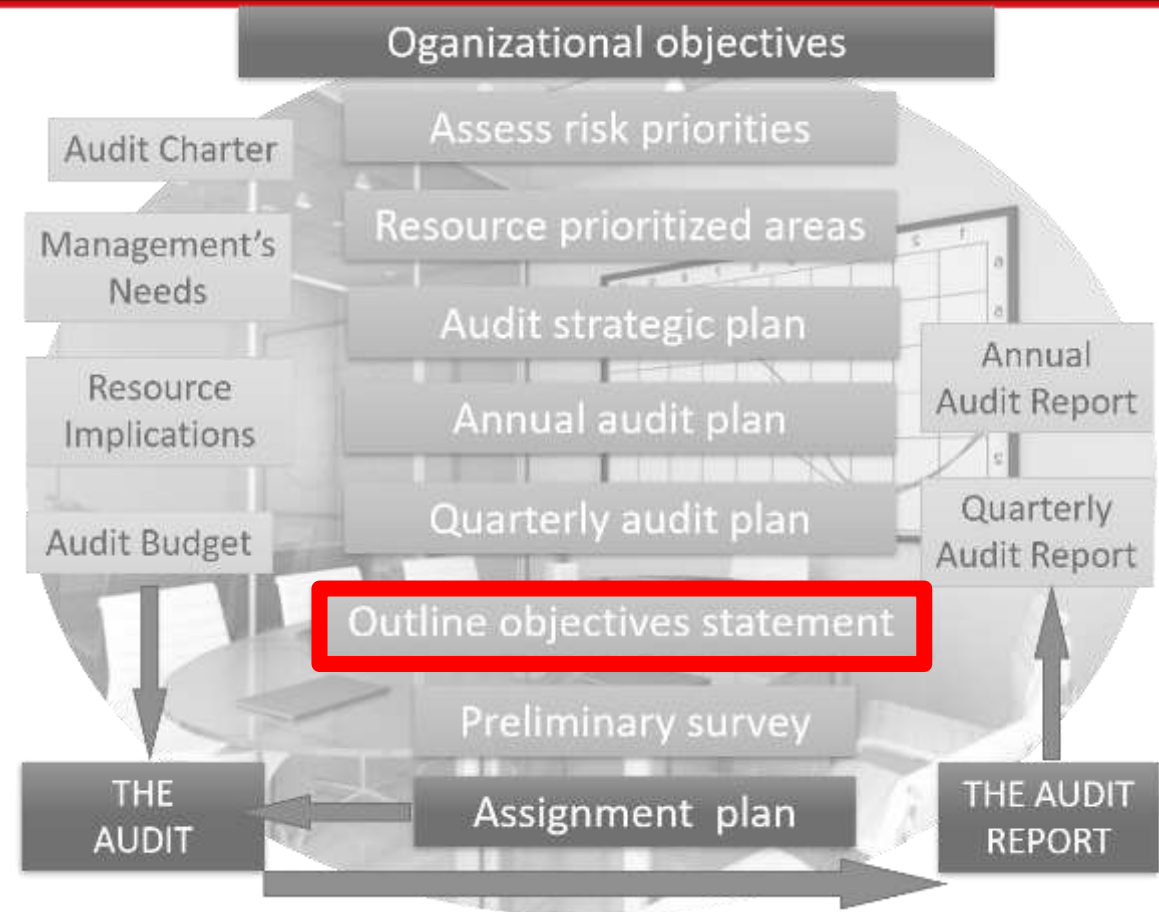
Let's Deal With:
OUTLINE OBJECTIVES STATEMENT

Spencer's eGuides

Your Template Briefing

PRELIMINARY SURVEY

Background research enables some thought on key areas to be covered in an audit assignment. This ranges from a quick look at previous audit files and a conversation with the operational client manager to a more formal processes of many days of background work involving a full assessment of local business risks.

The key to scoping an audit is that the work today cannot be a repeat of the work that was done last time the audit in question was tackled. This is why most audit teams have moved away from checklist audit programmes that are completed each time an audit is done.

The audit of today depends on the risks that face the area being reviewed, including new and emerging risks.

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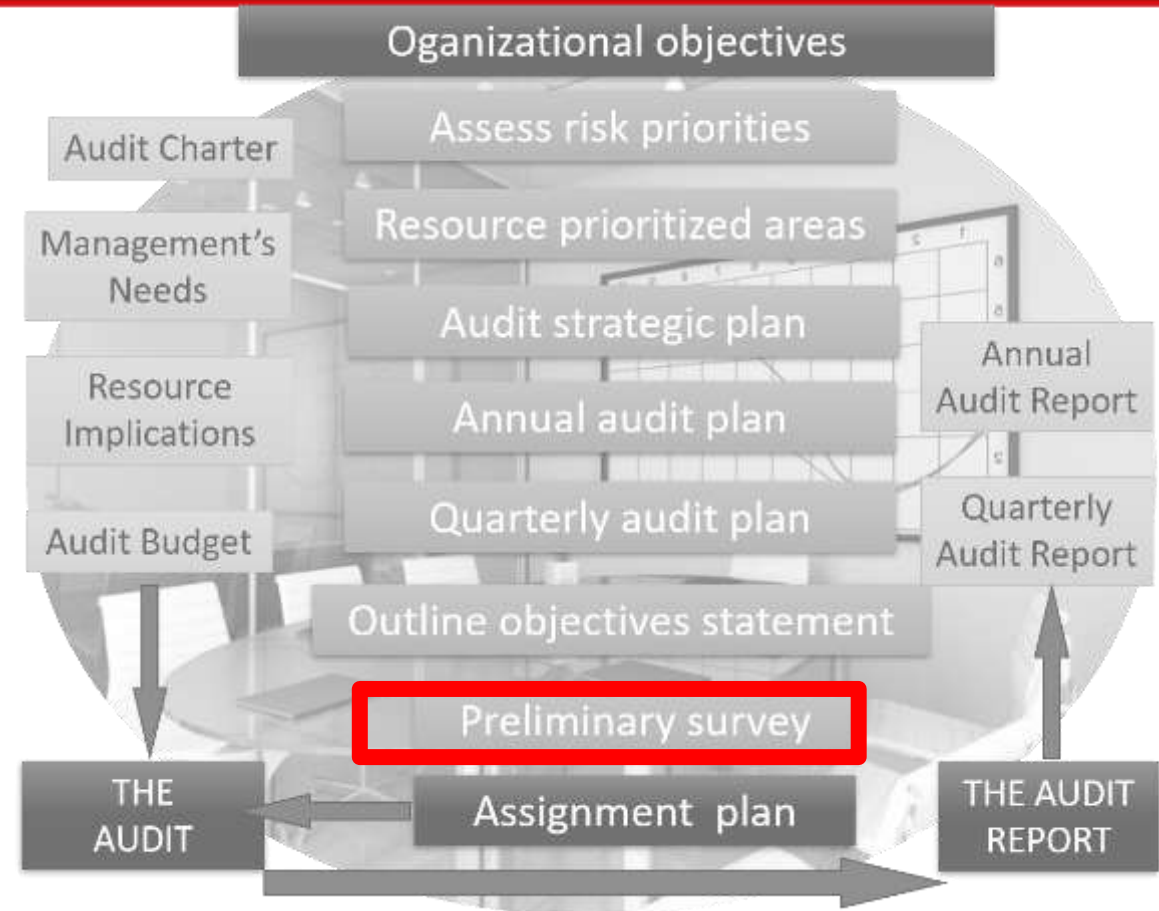
Let's Deal With:
THE PRELIMINARY SURVEY

ASSIGNMENT PLAN

We can now draft an assignment plan with formal terms of reference, including budgets, due dates and an audit program.

Audit plans will then flow naturally from the organization's strategic direction in dealing with risks to the business, while the underlying process should be flexible and, as strategies alter, planned reviews can be reassessed.

The flow of planning components should be kept in mind as we consider each aspect of audit planning.

Organizational objectives

Assess risk priorities

Resource prioritized areas

Audit strategic plan

Annual audit plan

Quarterly audit plan

Outline objectives statement

Preliminary survey

Audit Charter

Management's Needs

Resource Implications

Audit Budget

THE AUDIT

Assignment plan

THE AUDIT REPORT

Annual Audit Report

Quarterly Audit Report

Your Template Briefing

Introduction to Internal Auditing

Let's Deal With:
THE AUDIT ASSIGNMENT PLAN

THE AUDIT

The audit itself will be driven by everything that precedes this stage. The auditor should gather sufficient evidence to support audit findings which means the information should be factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor.

➢ Competent information is reliable and the best attainable through the use of appropriate techniques.

➢ Relevant information supports observations and recommendations and is consistent with the objectives of the audit.

➢ Useful information helps the organization meets its goals.

Risk based audit fieldwork is about reviewing the way risk management is working to ensue controls are able to mitigate risk to business aims, that fall outside acceptable limits. Progress on fieldwork should be monitored to ensure all matters in the terms of reference are properly considered by the auditor.

Oganizational objectives

Assess risk priorities

Audit Charter

Resource prioritized areas

Management's Needs

Audit strategic plan

Annual Audit Report

Resource Implications

Annual audit plan

Audit Budget

Quarterly audit plan

Quarterly Audit Report

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

THE AUDIT REPORT

Let's Deal With:
THE AUDIT

THE REPORTING PROCESS

Planning feeds naturally into reporting, so long as we have made proper reference to our plans throughout the course of the audit. Most auditors are very efficient when performing the field work. Back at the office, there is a tendency to slow down and spend time drafting which may lead to reporting delays. Auditors should write their report as they carry out the audit and the outline may be drafted as soon as the audit is started so that gaps are spotted before the auditor leaves the client.

The terms of reference may be drafted from the assignment plan while a section on background to the audit can be prepared shortly after. It is not acceptable to produce reports weeks after the audit and there should be clear deadlines set out. The report itself should be dynamic in that it deals with actions needed to improve the way risk is understood and managed that busy managers may find useful.

Your Template Briefing

Introduction to Internal Auditing

Let's Deal With:
THE REPORTING PROCESS

Spencer's eGuides

QUARTERLY AUDIT REPORT

This is a more detailed version of the annual audit report and covers audit activity in the 13 weeks in question. Accompanying statistics on chargeable hours and productivity should also be published along with the status of each planned audit.

This is more a control over the audit function than a reflective statement on organizational controls that is a feature of the annual report. Again, quarterly reports should be linked to the underlying plans.

An efficient auditor time monitoring system should provide information on chargeable and non-chargeable audit hours that can be incorporated directly into the quarterly report. The audit committee may want to hear about progress against the audit plan and the audits completed for the period.

Introduction to Internal Auditing

Oganizational objectives

Audit Charter

Assess risk priorities

Management's Needs

Resource prioritized areas

Audit strategic plan

Resource Implications

Annual audit plan

Annual Audit Report

Audit Budget

Quarterly audit plan

Quarterly Audit Report

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

THE AUDIT REPORT

Let's Deal With:
QUARTERLY AUDIT REPORT

ANNUAL AUDIT REPORT

The annual report to the organization may be presented to the audit committee and will have two main components. It should set out and discuss the audit achievements according to the annual plan. It should also provide a summary of key areas tackled and any material issues concerning the adequacy of the organization's system of risk management.

In this respect, it acts not only as a control over the performance of internal audit but also as a major control over the entire organization. This latter attribute means that major control issues that have not been adequately addressed will be isolated and brought to the attention of senior management of the organization. Accordingly, this should be used with great care since it represents the ultimate fail-safe mechanism where all other efforts to get the audit message across have failed. Assurance mapping can be used to help the board understand the way risk is reviewed across the organization.

Your Template Briefing

Introduction to Internal Auditing

Organizational objectives

Audit Charter

Assess risk priorities

Resource prioritized areas

Management's Needs

Audit strategic plan

Annual Audit Report

Resource Implications

Annual audit plan

Quarterly audit plan

Quarterly Audit Report

Audit Budget

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

THE AUDIT REPORT

Let's Deal With:
THE ANNUAL AUDIT REPORT

BCT

YOUR ROLE AS A PROFESSIONAL AUDITOR

Now let's look at this concept of professional audit services which is about:

➢ Adopting professional standards.
➢ Achieving good independence.
➢ Having a wide scope of audit services.
➢ Employing professional auditors.
➢ Using a risk based approach.
➢ And ensuring a sound quality assurance process.

These topics will be addressed in your Tutorial *e*Guide.

Oganizational objectives

Audit Charter

Assess risk priorities

Management's Needs

Resource prioritized areas

Audit strategic plan

Resource Implications

Annual audit plan

Annual Audit Report

Audit Budget

Quarterly audit plan

Quarterly Audit Report

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

THE AUDIT REPORT

Professional Internal Auditing

Your Template Briefing

Introduction to Internal Auditing

What You Now Need to Do:

You have an important role as a budding internal auditor. One way forward is to work through the Tutorial that follows. If you just wanted to know a little more about internal auditing, then you have covered some of the basics.

Your Template Briefing

Introduction to Internal Auditing

Spencer's **e**Guides

Okay, that's your intro done.

If you have had enough of your brief tour you can stop.

If you want more than just a glimpse into this topic then set aside an hour or so of your time, make yourself comfortable and start work on the Tutorial that follows.

End
of
Part One

Your Template Briefing The End

Introduction to Internal Auditing

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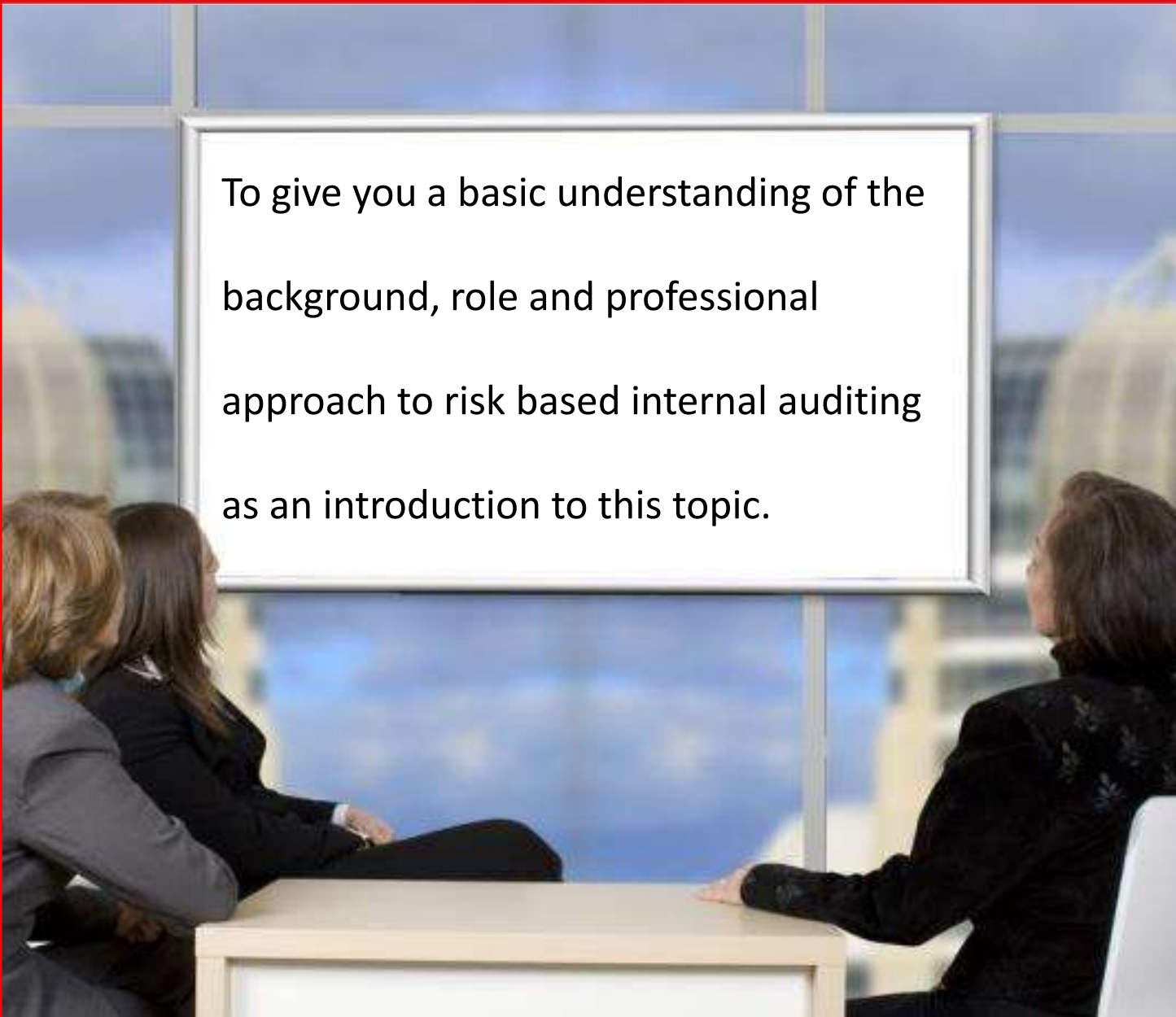
We have one simple aim for this Training Tutorial which is cross-referenced to the IIA's 2017 International Professional Practices Framework (IPPF).

You will be tackling each part of a specially prepared Template that provides an introduction to internal auditing. We have included a few further information pages that drill down into the topic being viewed. You may choose to read these pages or simply skip them. You do not have to study these 'extra' pages to achieve the training aims.

You should contact the Institute of Internal Auditors if you are considering a career as a professional internal auditor at www.global.theiia.org.

To give you a basic understanding of the background, role and professional approach to risk based internal auditing as an introduction to this topic.

Your Tutorial

Introduction to Internal Auditing

PROGRESS MARKER
10 %

What are the missing words? Many internal audit shops have moved on from relying on risk assessment checklists and have entered into a .... about how the audit resource can be used to best effect.

Would you chose 1, 2 or 3 as the most appropriate response? The correct answer is on the next page.
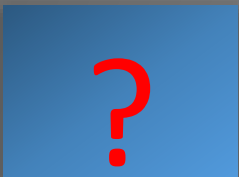
1	dialogue with the entire audit team
2	scientific appraisal
3	dialogue with the board

?

We hope to convince you that internal audit has a key role on the high-level board agenda.

Let's look at the office gossip next.

1 ❌ dialogue with the entire audit team

2 ❌ scientific appraisal

3 ✅ dialogue with the board

?

Introduction to Internal Auditing

Your Tutorial

1. HISTORY OF INTERNAL AUDITING

1. History of IA
2. Auditing Standards
3. Scope of Audit Work
4. Basic Audit Concepts
5. Quality Assurance
6. The Audit Image
7. Governance & Risk Management
8. The Audit Strategy & Planning
9. Audit Fieldwork
10. Adding Value

Oganizational objectives

Audit Charter

Assess risk priorities

Management's Needs

Resource prioritized areas

Audit strategic plan

Resource Implications

Annual audit plan

Annual Audit Report

Quarterly audit plan

Quarterly Audit Report

Audit Budget

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

THE AUDIT REPORT

Internal auditors' primary role is to review?

Would you chose 1, 2 or 3 as the most appropriate response? The correct answer is on the next page.

1 The way managers behave.

2 The way risks are managed.

3 The performance of work teams.

?

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An Answer

1.
History of
Internal
Auditing

Internal auditors' primary role is to review?

All will be revealed on the next page.

1 ❌ The way managers behave.

2 ✔️ The way risks are managed.

3 ❌ The performance of work teams.

?

BCT

Internal auditing is primarily concerned about the way risks are being managed in the organization in question.

Have a look at the definition provided by the Institute of Internal Auditors (the IIA).

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.

Please spend a few minutes considering each aspect of the IIA definition and reflect on why they are each so important to the audit role.

internal auditing:

independent, objective

assurance and consulting activity

add value and improve an organization's operations

it helps an organization accomplish its objectives

a systematic, disciplined approach

evaluate and improve

effectiveness of risk management, control and governance processes

1.
History of
Internal
Auditing

Introduction to Internal Auditing

Let's look at each one on this and the next page.

internal auditing: This is what auditors are called and this name appears in many regulations.

independent, objective: independence is about being able to stand back and carry out reliable audit work that is taken seriously.

assurance and consulting activity: audit give assurance that all is well (or otherwise) and also act as consultants by helping to improve things.

add value and improve an organization's operations: everything that happens in an organization, even if simply required by law, should add value to be worthwhile.

Introduction to Internal Auditing

Introduction to Internal Auditing

Here you go.

it helps an organization accomplish its objectives: all audit work starts with what the organization is seeking to achieve. This factor drives everything that the auditor does.

a systematic, disciplined approach: this is about professionalism, the cornerstone for delivering the audit product.

evaluate and improve: evaluation is about comparing what should be with what is, and seeking to close any gaps.

effectiveness of risk management, control and governance processes: This is the scope of internal auditing.

Internal auditing is seen by some people as part of the external audit function.

Why do you think this is so?

1. History of Internal Auditing

Introduction to Internal Auditing

Spencer's eGuides

People often mis understand internal auditing because of its checkered history, which we will tackle next.

We'll build our simple model over the next few pages to answer this question.

Here is a potted history of the development of IA.

1 Internal audit developed as an extension of the external audit role in testing the reliability of accounting records.

THE OLD

1 External Audit Resource

Spot Check Test Programs

Move Away from Finances

THE NEW

Risk Based Auditing

Chief Audit Executive

Governance Risk & Control

Board/Audit Committees

True Professionalism

REVIEWING THE RISK CULTURE

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History of Internal Auditing

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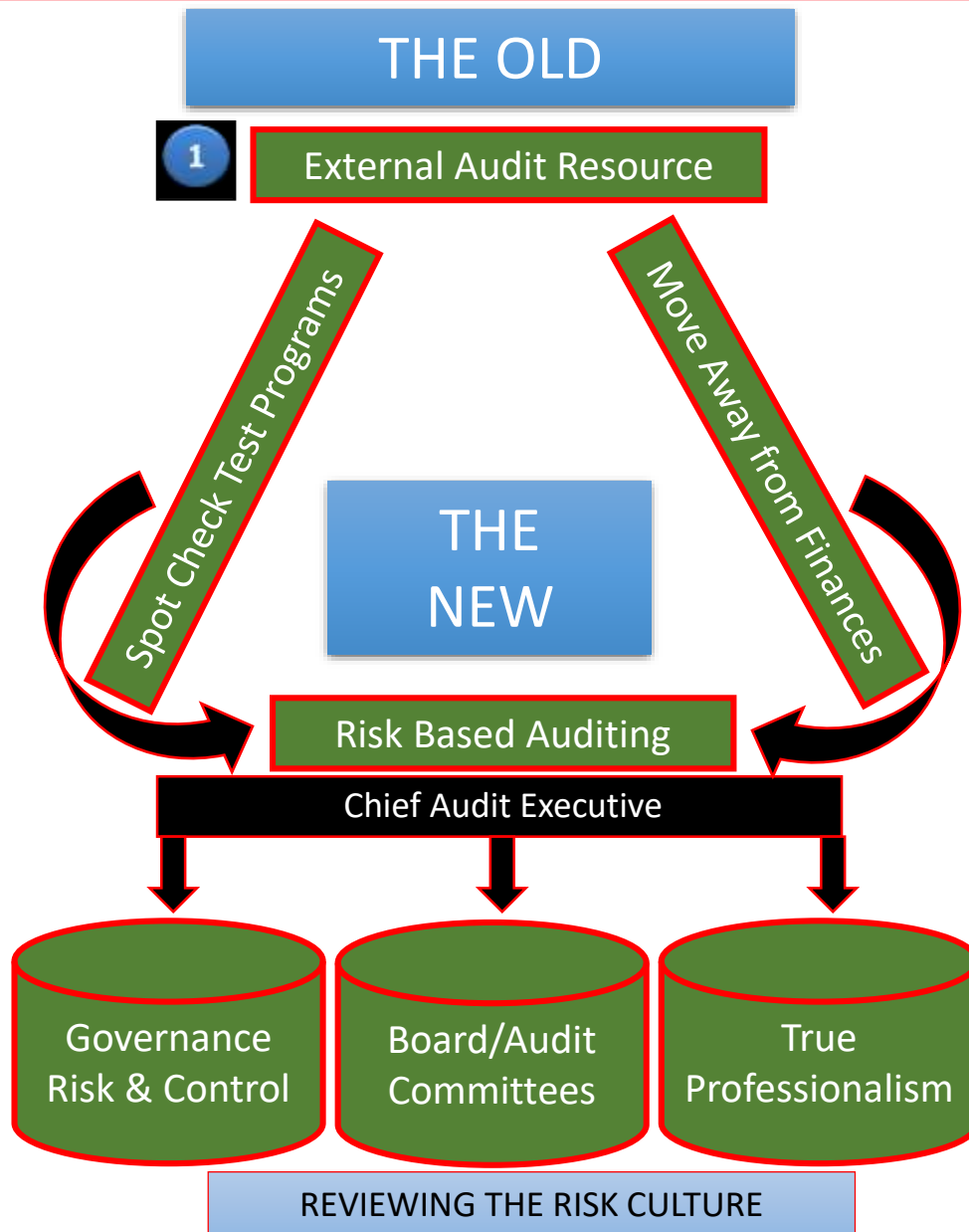
1.
History of
Internal
Auditing

Spot checks came next as audit work meant ticking off each check listed on the set audit program.

Here is a potted history of the development of IA.

1 Internal audit developed as an extension of the external audit role in testing the reliability of accounting records.

2 Probity work arrived next as auditors arrived unannounced at local offices to checking the cash and accounting and inventory records. Using a detailed audit testing program.

THE OLD

1 External Audit Resource

2 Spot Check Test Programs

Move Away from Finances

THE NEW

Risk Based Auditing

Chief Audit Executive

Governance Risk & Control

Board/Audit Committees

True Professionalism

REVIEWING THE RISK CULTURE

Spencer's eGuides

Stepping out of just checking the accounts was a major shift in the audit effort which had traditionally reported to the Finance Director.

Here is a potted history of the development of IA.

1 Internal audit developed as an extension of the external audit role in testing the reliability of accounting records.

2 Probity work arrived next as auditors arrived unannounced at local offices to checking the cash and accounting and inventory records. Using a detailed audit testing program.

3 Then a move away from just checking accounting records to cover checks over all parts of the organization.

THE OLD

1 External Audit Resource

2 Spot Check Test Programs

3 Move Away from Finances

THE NEW

Risk Based Auditing

Chief Audit Executive

Governance Risk & Control

Board/Audit Committees

True Professionalism

REVIEWING THE RISK CULTURE

BCT
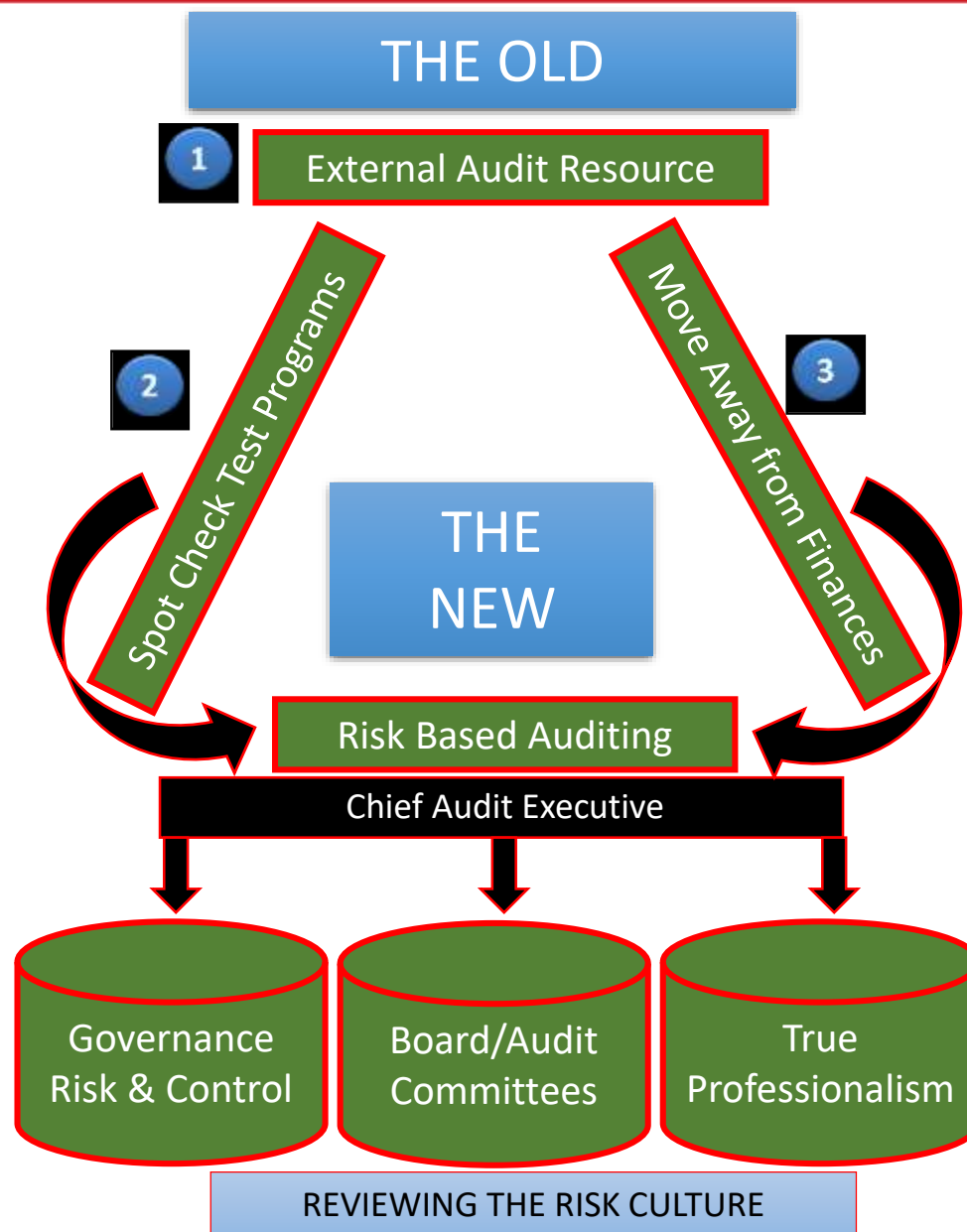
We will be dealing with Risk Based Auditing during your Tutorial.

Here is a potted history of the development of IA.

1 Internal audit developed as an extension of the external audit role in testing the reliability of accounting records.

2 Probity work arrived next as auditors arrived unannounced at local offices to checking the cash and accounting and inventory records. Using a detailed audit testing program.

3 Then a move away from just checking accounting records to cover checks over all parts of the organization.

4 Risk based auditing came next driven by the way the organization manages risks and establishes controls

THE OLD

1 External Audit Resource

2 Spot Check Test Programs

3 Move Away from Finances

THE NEW

4 Risk Based Auditing

Chief Audit Executive

Governance Risk & Control

Board/Audit Committees

True Professionalism

REVIEWING THE RISK CULTURE

Introduction to Internal Auditing

BCT

Right now the sky's the limit in terms of the scope and extent of audit services. Far removed from helping external audit by checking as many financial records as possible.

Here is a potted history of the development of IA.

1 Internal audit developed as an extension of the external audit role in testing the reliability of accounting records.

2 Probity work arrived next as auditors arrived unannounced at local offices to checking the cash and accounting and inventory records. Using a detailed audit testing program.
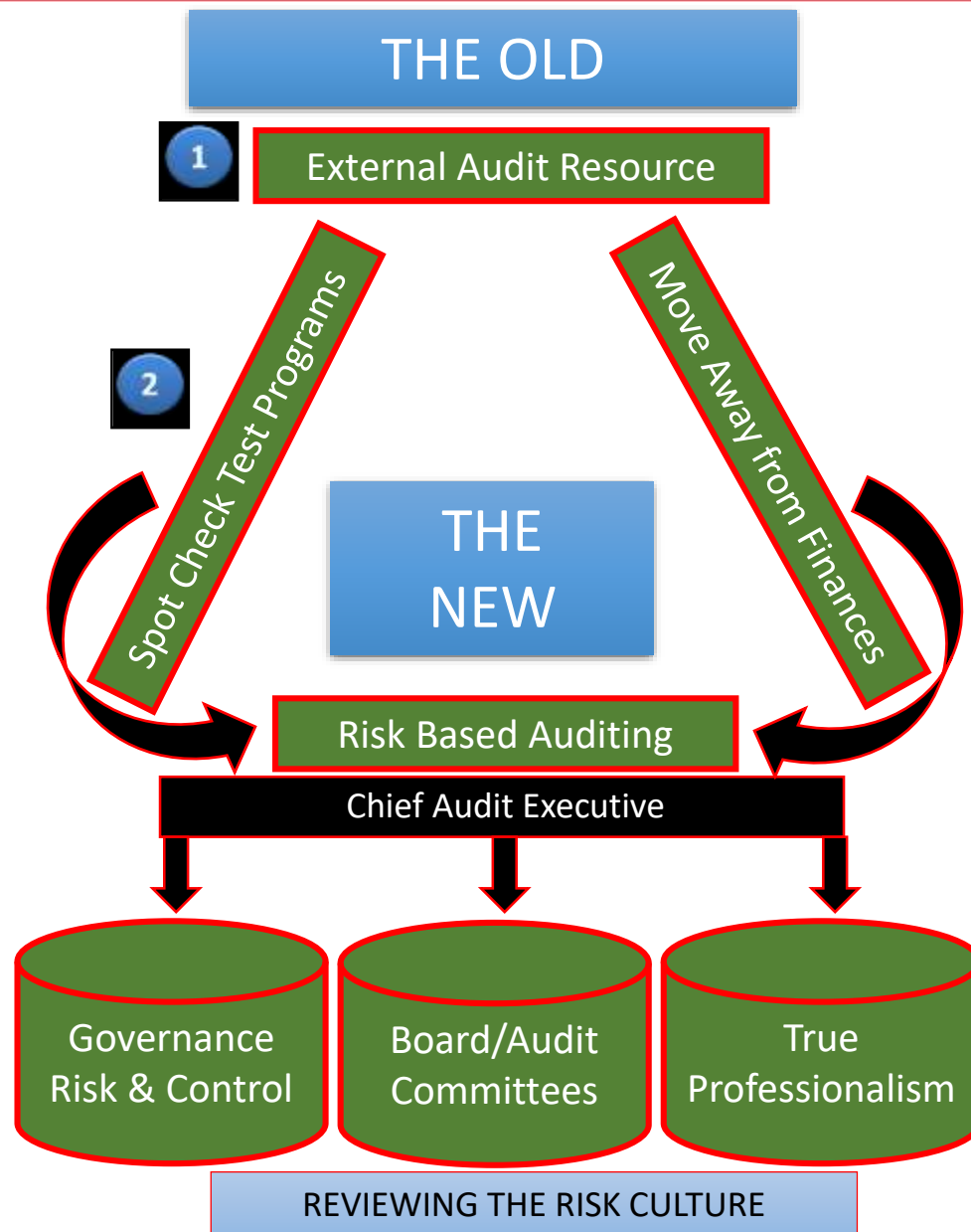
3 Then a move away from just checking accounting records to cover checks over all parts of the organization.

4 Risk based auditing came next driven by the way the organization manages risks and establishes controls.

5 Professional auditing has arrived with powerful Chief Audit Executives reviewing governance arrangements and the overall risk culture. Reporting to senior management, the board and independent audit committees.

Introduction to Internal Auditing

THE OLD

1 External Audit Resource

2 Spot Check Test Programs

3 Move Away from Finances

THE NEW

4 Risk Based Auditing

Chief Audit Executive

Governance Risk & Control

5 Board/Audit Committees

True Professionalism

REVIEWING THE RISK CULTURE

Internal auditors have moved from low level checkers (the photo on the left) to professional reviewers/consultants (the photo on the right).

From an obsession with finding errors to an obsession with promoting effective risk management.

The newly appointed internal auditor may well find they have to spend time convincing clients that they have moved from the old to the new approaches.

Auditor

BCT

Your Tutorial

2. AUDITING STANDARDS

1. History of IA
2. Auditing Standards
3. Scope of Audit Work
4. Basic Audit Concepts
5. Quality Assurance
6. The Audit Image
7. Governance & Risk Management
8. The Audit Strategy & Planning
9. Audit Fieldwork
10. Adding Value

Oganizational objectives

Audit Charter

Assess risk priorities

Management's Needs

Resource prioritized areas

Audit strategic plan

Resource Implications

Annual audit plan

Annual Audit Report

Quarterly audit plan

Quarterly Audit Report

Audit Budget

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

THE AUDIT REPORT

PROGRESS MARKER
14 %

BCT

It takes a great deal of time and effort to develop standards for a profession. Why is this task so important?

How would you describe the purpose of internal auditing standards?

The Institute of Internal Auditors (IIA) has existed since 1941 and have published their International Professional Practices Framework (IPPF) which contains the basic elements of the profession.

Remember, for authoritative guidance and to discuss your career as an internal auditor, please contact the Institute of Internal Auditors:

Global.theiia.org

Let's drill down into the IPPF on the next few pages.

IPPF International Professional Practices Framework

Mission

MANDATORY GUIDANCE

Core Principles

Definition

Code of Ethics

Standards

Implementation Guidance

Supplemental Guidance

RECOMMENDED GUIDANCE

The IIA's Core Principles help guide the way internal audit adds value to the organization.

Core Principles

The Core Principles, taken as a whole articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles must be present and operating effectively.
1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organization.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organizational improvement.

Introduction to Internal Auditing

Let's have a look at the reason we need audit standards.

Purpose of Audit Standards

1. Guide adherence with the mandatory elements of the International Professional Practices Framework.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing services.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

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.

Introduction to Internal Auditing

2.
Auditing
Standards

IIA Attribute standards indicate what the audit unit should look like.

Attribute Standards

1000 – Purpose, Authority, and Responsibility

1100 – Independence and Objectivity

1200 – Proficiency and Due Professional Care

1300 – Quality Assurance and Improvement Program

Introduction to Internal Auditing

While IIA Performance Standards set out what professional audit work should look like.

We will be considering the question of audit services later on.

Performance Standards

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 Risks

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The IPPF

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2.
Auditing
Standards

The International Professional Practices Framework (IPPF) is the conceptual framework that encapsulates the guidance promulgated by the IIA.

The mandatory standards cover the definition, the code of ethics and the various attribute and performance standards.

The rest of the IPPF is endorsed and strongly recommended by the IIA.

Supplemental Guidance includes what was formerly known as practice advisories. They deal with topics such as bribery and privacy risks. They also incorporate GTAGs (Global Technology Audit Guides). Supplemental guidance which is not mandatory, deals with sector specific issues and topical areas.

Implementation Guidance expands upon the Attribute and Performance Standards by providing the requirements applicable to assurance (A) or consulting (C) services. For example, Implemental Guide 1100 explains how standard 1100 on independence and objectivity can be applied at work.

The Code of Ethics underpins auditor professionalism so that your work is trusted and covers principles and rules of conduct covering: Integrity Objectivity Confidentiality Competency. The Rules of Conduct describe behaviour norms expected of internal auditors.

Mission
MANDATORY GUIDANCE
Core Principles
Definition
Code of Ethics
Standards
Implementation Guidance
Supplemental Guidance
RECOMMENDED GUIDANCE

Introduction to Internal Auditing

Let's go over your standards one more time.

These Standards should be observed and they should be properly understood by all professional auditors.

You will need to obtain a copy of these standards and ensure you know the concepts and requirements they establish.

IIA IPPF : 2017

Attribute Standards

1000 – Purpose, Authority, and Responsibility
1100 – Independence and Objectivity
1200 – Proficiency and Due Professional Care
1300 – Quality Assurance and Improvement Program

Performance Standards

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 Risks

Introduction to Internal Auditing

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2.
Auditing
Standards

Introduction to Internal Auditing

What is the difference between assurance and consulting services?

We have defined internal auditing as consisting of assurance and consulting services. How would you describe the difference between these two types of audit services?

The definition of internal auditing makes it clear that it is an assurance and consulting activity.

Your assurance role is about assessing whether something is okay or not.

Audit Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

While the consulting role is more about helping individual managers improve things.

Auditors both review processes and help management on special projects.

For example, they may set up a fraud awareness staff training event as part of their audit consulting role.

Audit Consulting Services

While consulting services are defined by the IIA as:

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Introduction to Internal Auditing

2.
Auditing
Standards

We said in Part One that internal auditors have moved from an obsession with finding errors to an obsession with promoting effective risk management.

We can now say they have moved from a small team based in the accountancy section, to a professional function that is supported by global standards.

You cannot be a good internal auditor without a good knowledge of professional protocols and guidance that has been developed by the profession over many decades.

We have only given you a small taste of these standards in this Tutorial.

Auditor

Introduction to Internal Auditing

BCT

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2. Auditing Standards

Before we go to the next part, let me give you a concluding remark.

Internal auditing is one of the few professions that can claim to be truly global. Standards cover all aspects of audit work, wherever this happens.

Introduction to Internal Auditing

Your Tutorial

3. SCOPE OF AUDIT WORK

1. History of IA
2. Auditing Standards
3. Scope of Audit Work
4. Basic Audit Concepts
5. Quality Assurance
6. The Audit Image
7. Governance & Risk Management
8. The Audit Strategy & Planning
9. Audit Fieldwork
10. Adding Value

3.
Scope of
Audit Work

Introduction to Internal Auditing

PROGRESS
MARKER
18 %

3.
Scope of
Audit Work

Have a go at this short exercise.

Note down what management expects from the internal audit function and whether this need is fully met.

Introduction to Internal Auditing

To answer this question of expectations of internal auditing, we need to go over the Three Lines of Defence. This is based on a model developed by the Institute of Internal Auditors.

Let's start with a crude organizational model. We have a business that has a basic employee structure. The idea is to meet stakeholder expectations through a robust performance management system.

AIMS

KPIs
Business Model
Management

Team Leaders
Performance Management

Operational & Front Line Staff

Introduction to Internal Auditing

Your performance system will need to deal with external and internal risks that stem from the uncertainty that all organizations face.

EXTERNAL RISKS

EXTERNAL RISKS

AIMS

KPIs
Business Model
Management

Team Leaders
Performance Management

Operational & Front Line Staff

INTERNAL RISKS

INTERNAL RISKS

Introduction to Internal Auditing

3.
Scope of
Audit Work

Introduction to Internal Auditing

Such risks to a successful business or service will have to be dealt with through a sound risk management process.

Whether public sector, private or not for profit organizations.

EXTERNAL RISKS

EXTERNAL RISKS

AIMS

KPIs
Business Model
Management
Risk Management Process
Team Leaders
Performance Management
Operational & Front Line Staff

INTERNAL RISKS

INTERNAL RISKS

BCT

Management is the first line of defence.

The first and most important way management can deal with risks to their business is by establishing a sound risk management process.

EXTERNAL RISKS

1ST LINE

Executives, senior management and support and front line staff.

AIMS

MANAGEMENT

KPIs
Business Model
Management

Risk Management Process

Team Leaders
Performance Management

Operational & Front Line Staff

EXTERNAL RISKS

INTERNAL RISKS

INTERNAL RISKS

Introduction to Internal Auditing

3.
Scope of
Audit Work

Introduction to Internal Auditing

Next comes the risk, health and safety security and various compliance teams set up by management to help deal with risk across the organization.

EXTERNAL RISKS

1ST LINE

Executives, senior management and support and front line staff.

AIMS

EXTERNAL RISKS

2ND LINE

Risk management, compliance teams and control units.

MANAGEMENT

RISK AND COMPLIANCE

KPIs
Business Model
Management
Risk Management Process
Team Leaders
Performance Management
Operational & Front Line Staff

INTERNAL RISKS

INTERNAL RISKS

BCT

BCT
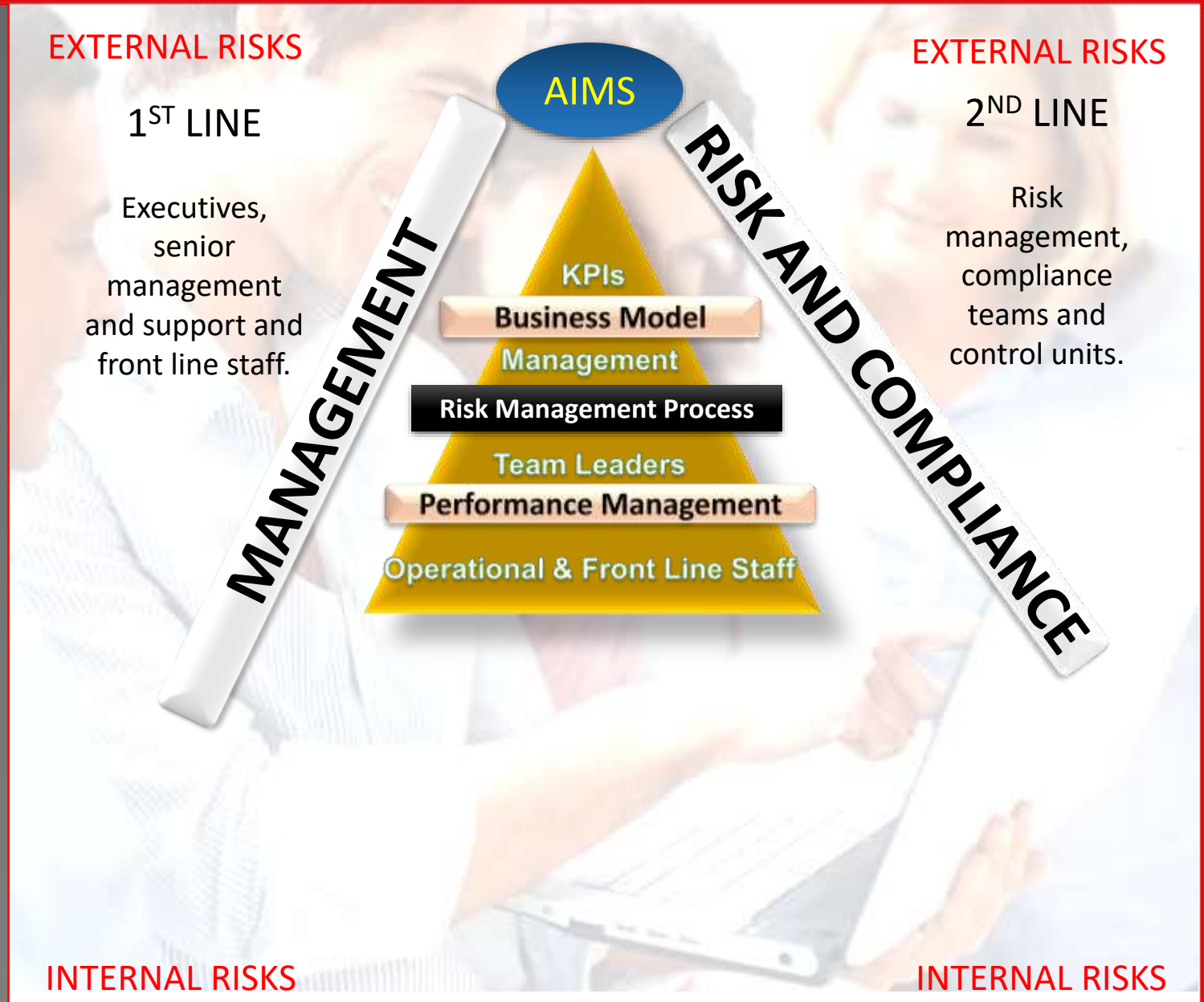
The third line of defence is Professional Internal Auditing which independently reviews how the first and second lines are doing.

Audit can also help management and review teams understand and apply their role as part of the three lines of defence.

But auditors can only act as the third line of defence if their work is carried out professionally.

There are several basic concepts that underpin a professional internal audit function which we will be covering next.

EXTERNAL RISKS

1ST LINE

Executives, senior management and support and front line staff.

AIMS

EXTERNAL RISKS

2ND LINE

Risk management, compliance teams and control units.

MANAGEMENT

RISK AND COMPLIANCE

KPIs
Business Model
Management
Risk Management Process
Team Leaders
Performance Management
Operational & Front Line Staff

INTERNAL AUDITING

3RD LINE

The internal audit unit who report independently to the board and audit committee.

INTERNAL RISKS

INTERNAL RISKS

Before we go to the next part, let me give you a concluding remark.

The scope of internal auditing reaches out to the highest levels of governance across all organizations and knows no bounds.

3. Scope of Audit Work

Introduction to Internal Auditing

Spencer's eGuides

Your Tutorial

4. BASIC AUDIT CONCEPTS

Introduction to Internal Auditing

Organizational objectives

Audit Charter

Management's Needs

Resource Implications

Audit Budget

Assess risk priorities

Resource prioritized areas

Audit strategic plan

Annual audit plan

Quarterly audit plan

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

THE AUDIT REPORT

Annual Audit Report

Quarterly Audit Report

PROGRESS
MARKER
20 %

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A Question

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4.
Basic Audit
Concepts

What is abc?:
All definitions of internal audit contain the word "abc" and this is an important component of the audit role. It is both a concept and an ideal. One could assume that since internal audit is located within the organization it cannot be abc.

Would you chose 1, 2 or 3 as the most appropriate response? The correct answer is on the next page.
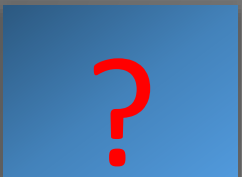
1 outstanding

2 independent

3 reliable

?

Introduction to Internal Auditing

4.
Basic Audit
Concepts

But first, let's look at the scope of audit work.

A really important part of the audit role focuses on five main aspects of a business. The scope of internal auditing is found in the Institute of Internal Auditors' Performance Standard 2120.A1.

This criteria can be used to drive audit work and resulting audit reports when reviewing a business process.

It is a good idea to commit these five items to your memory along with the standards as they set the tone and direction of your role within the organization.

Standard 2120.A1

The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

➤ Achievement of the organization's strategic objectives.
➤ Reliability and integrity of financial and operational information.
➤ Effectiveness and efficiency of operations and programs.
➤ Safeguarding of assets.
➤ Compliance with laws, regulations, policies, procedures, and contracts.

Introduction to Internal Auditing

We have looked at the scope of audit work set out in professional standards. Now we have to tell our employer what our role should be within the organization.

What should be included in Your audit charter?

4.
Basic Audit Concepts

Introduction to Internal Auditing

4.
Basic Audit
Concepts

The IIA's attribute standard 1000 covers the purpose, authority, and responsibility of internal audit.

Standard 1000

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Introduction to Internal Auditing

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The Audit Charter may well contain the following elements. It may be used in a positive fashion to underpin the marketing task that is discharged by audit management. It can also be used to defend audit services in the event of a dispute or an awkward audit. The charter formally documents the *raison d'être* of the audit function and should cover things like:

➢ roles and responsibilities
➢ authority and accountability
➢ independence and objectivity
➢ outsourcing and co-sourcing arrangements, if applicable
➢ reporting and monitoring
➢ annual review of the charter by the audit committee
➢ standards of audit practice.

Introduction to Internal Auditing

DEFINITIONS

Formal definition of internal audit

SCOPE OF WORK

Covers the 5 key areas we already mentioned

SERVICES

Management's responsibilities, planned systems work & investigations (consultancy)

ACCESS

Rights of access

INDEPENDENCE

Importance of objectivity

BCT Spencer's *e*Guides

4.
Basic Audit
Concepts

As well as the Audit Charter, there are two more fundamental concepts of internal auditing.

Introduction to Internal Auditing

CHARTER

AUDIT SERVICES

INTERNAL AUDIT

FUNCTION

AUDIT
INDEPENDENCE

AUDIT
ETHICS

BCT
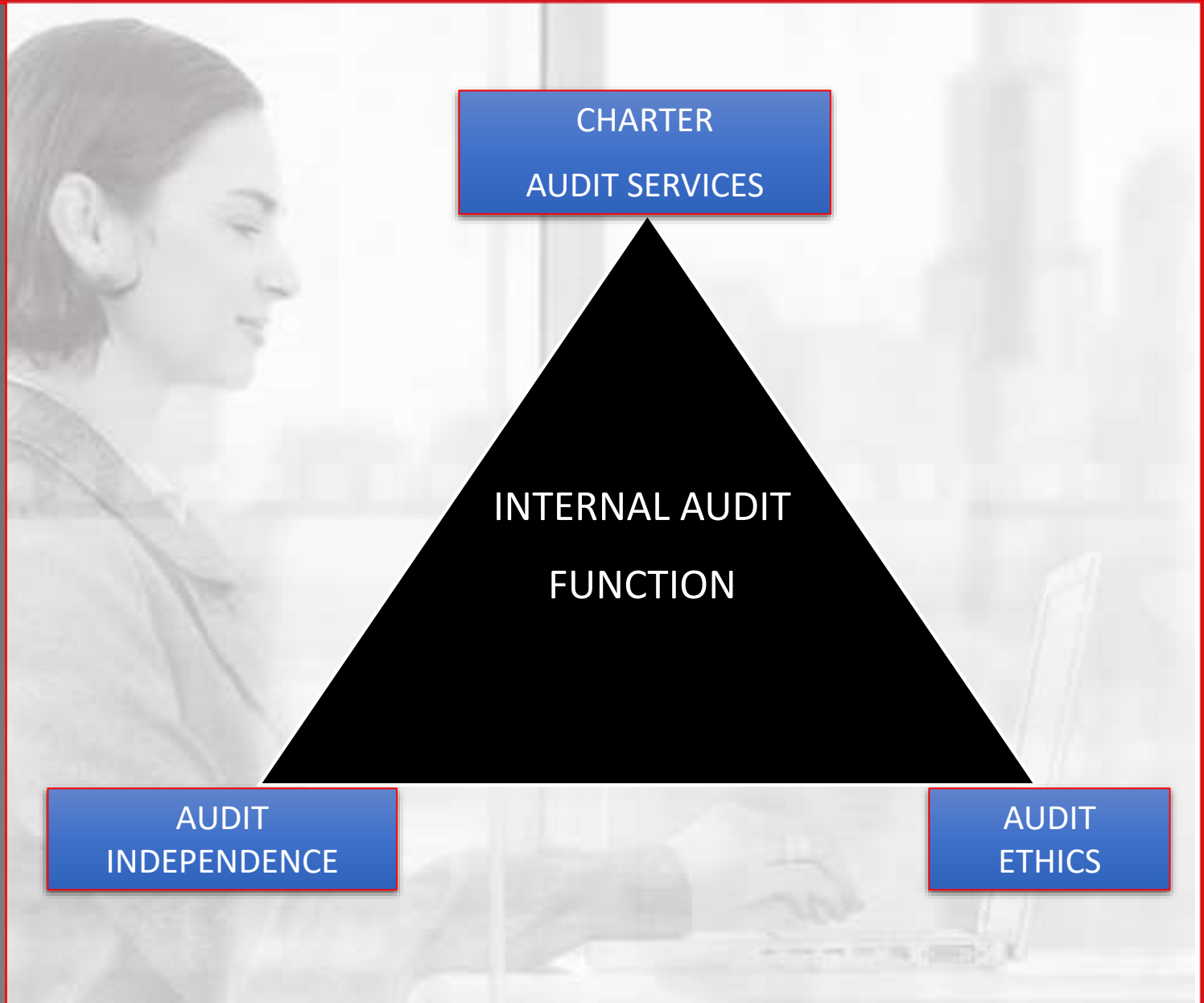
Let's look at audit independence. Internal audit may be staffed by employees or outsourced to an external provider (or a mix).

So how can a service employed by the management be truly independent?

In what way can internal audit claim to be independent when the auditors are employed by the organization?

IIA standard 1100 covers independence and objectivity by stating that:

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

An extract from the interpretation of this standard is set out opposite.

Audit will have access to the board and report to a senior person, while holding a dotted reporting line to the audit committee.

And the audit committee will intervene if there is anything which undermines the ability of the auditors to carry out and report professional audit work without fear or favour.

IIA Standard 1100

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organizational levels.

Standard 1100 goes on to explain the concept of audit objectivity.

We have picked out the idea that auditors should not subordinate their judgment to others as a key aspect of being objective and performing professional and unbiased work.

This phrase is one more great thing to memorize as many an auditor has quoted it during their career.

IIA Standard 1100

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

Introduction to Internal Auditing

Spencer's eGuides

Audit Independence

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4.
Basic Audit
Concepts

There are many positive images that are conjured up by this concept of independence. Audit's objectivity is impaired where the auditor designs, installs, drafts procedures, or operates a management process. Most auditors work for the organization and in that way are not independent.

But what is important is that their work status and reporting lines are sufficiently senior to ensure what their reports are taken seriously. And their professional standards mean audit work is carried out in an objective way.

In this way audit independence is not an absolute concept but more of a practical matter, steeped in doing a good job that makes a difference.

What is Independence?

1. Objectivity
2. Impartiality
3. Unbiased views
4. Valid opinion
5. No spying for management
6. No 'no-go' areas
7. Senior management audited
8. No backing-off

There should be no limitations to internal audit's right of access to files, employees and associates, records, information/explanations, premises, or meetings which it considers necessary to fulfil its responsibilities.

4.
Basic Audit
Concepts

Introduction to Internal Auditing

Independence is not only a basic concept, it can also be a real problem in the real world.

Being objective, probing areas of concern and trying to verify representations from powerful individuals can create huge problems for the internal auditor.

It would be wrong to embark on a career as an auditor and expect everything to go well all the time. Where someone tries to close down an audit then seek help, seek advice and talk to the CAE. But do not just walk away for an easy life. You can read more on independence on the next page, then we'll deal with audit ethics.

What is Independence?

1. Objectivity
2. Impartiality
3. Unbiased views
4. Valid opinion
5. No spying for management
6. No 'no-go' areas
7. Senior management audited
8. No backing-off

Sometimes, the internal auditor will ruffle feathers and ask questions that may cause embarrassment to senior people. Number 8 on our independence list may need to swing into action – No Backing Off.

Audit Independence

One model that may be put forward is based on the following key factors:

1. The ultimate recipient of audit services must have the power to make executive decisions at the highest level of the organization about managing risks. The CAE must have unrestricted access to this forum as and when required and this should be formally established in the audit charter.

2. The audit strategy must be derived from a process that assesses high risk areas unimpeded, using a top-downwards approach that includes a level of consultation with clients. As such the most sensitive high level areas that impact the organization's ability to achieve sustainable success should feature in a resultant audit plan. This plan must be supported by the people noted in point 1 above.

3. The CAE must prepare up-to-date procedures that together form a defined audit methodology covering the way audits are managed and conducted. The underlying policies and procedures should be defined in a formal document (the audit manual).

4. The audit staff should be employed to discharge the risk based audit plan and they should be professionally qualified and/or undergoing an individually tailored, ongoing training/development programs. Audit staff should be required to meet defined targets that together ensure the completion of audit plans within both time budgets and in line with professional standards and the code of ethics.

5. Work set out in audit plans should be carried out to the relevant standards (i.e. per the audit manual) and fully completed. The results of such work should be fully reported without regard to any factors that do not form part of the formal audit findings and they should be followed up within a reasonable time period.

6. Management must be required to react to audit findings by implementing them or accounting for the implications of not doing so in terms of outstanding residual risk. This requirement should be set out in job descriptions and the organization's disciplinary code of practice.

7. Internal audit must be subject to a continuing process of quality review on a functional level and individual audit level, and any material problems must be reported and dealt with in the forum noted in the first point 1 above.

8. The CAE must have competent monitoring systems that allow him/her to judge whether the requirements outlined above have been satisfied.

We have seen that independence is a complicated concept that is affected by the audit approach that is adopted. There are no absolutes and audit independence cannot be worn as a halo so as to allow the auditor to float above the realities of workplace culture and practices.

Next is ethics. There are four items in the IIA principles that underpin their code of ethics.

Let's list five items:
1. Integrity.
2. Objectivity.
3. Confidentiality.
4. Complaints.
5. Competency.

So which of these five items should not be in the IIA Code of Ethics?

4. Basic Audit Concepts

Introduction to Internal Auditing

Complaints is not in the code.

The IIA Code of Ethics contains the principles that internal auditors are expected to apply and uphold.

These are the ideals you are expected to observe at all times.

The IIA Code Of Ethics

1. *Integrity.* The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
2. *Objectivity.* Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
3. *Confidentiality.* Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4. *Competency.* Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

We have all the components in place for an effective internal audit service but the words in Red suggest some of the ways the audits might be seen by your colleagues outside the audit team.

Because of the history of auditing that we discussed earlier, there can be a negative view of internal auditors and what the service does within an organization.
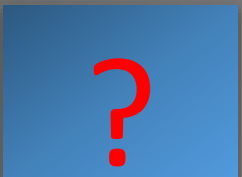
Such negativity is something you may have to overcome as you embark on your audit work.

examination

investigation

scrutiny

interrogation

inspection

check

CHARTER
AUDIT SERVICES

INTERNAL AUDIT

FUNCTION

AUDIT
INDEPENDENCE

AUDIT
ETHICS

Introduction to Internal Auditing
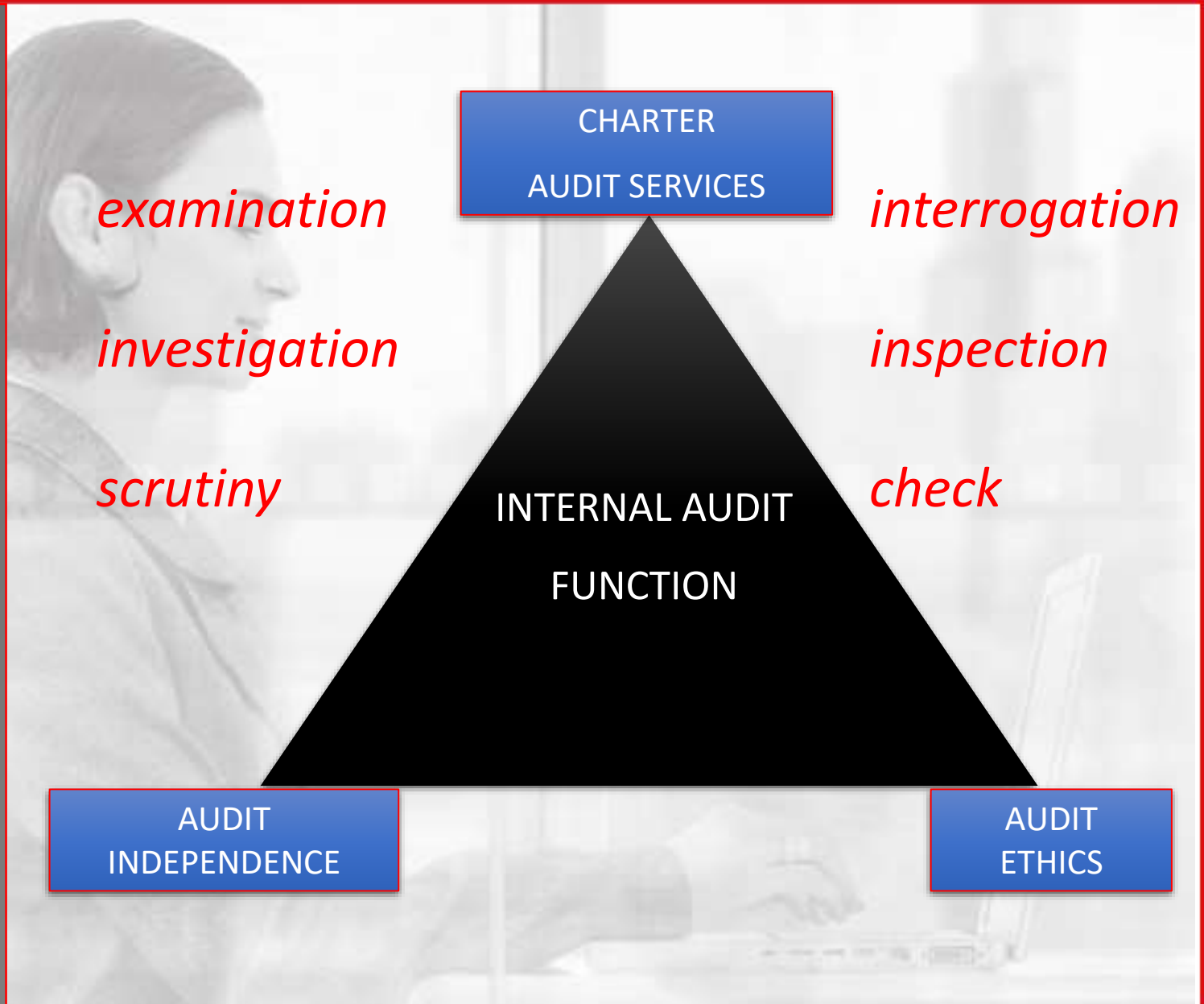
What are the missing words: Auditors should be skilled in dealing with ……………….. and as such this aspect is seen as a valid audit skill. Unfortunately this skill does not always form part of the auditor's professional training and development programme.

Would you chose 1, 2 or 3 as the most appropriate response? The correct answer is on the next page.

?

1 problems

2 people

3 risks

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An Answer

4.
Basic Audit
Concepts

Introduction to Internal Auditing

As an auditor, you need to be able to work with people to get your job done.

In fact, understanding problems and dealing with risk is mostly about the way people behave at work.

1 ✗ problems

2 ✓ people

3 ✗ risks

?

4.
Basic Audit
Concepts

Internal audit should be a helpful, value add service but there are still old fashioned views held by some. Why is this the case and what can be done about it?

Why do some people view the internal audit team in such a negative manner, and what can be done to tackle this problem?

Introduction to Internal Auditing

4.
Basic Audit
Concepts

We have already warned that you need to understand and respond to the fact that some people hold onto the old view of internal audit as a checking service.

Building a helpful web page for the corporate network that explains the audit process is a good start.

Our View

Internal audit cannot be done in the audit office with no contact with management and operatives. The audit objective is based on providing sound advice to management on their systems of risk and control. Here, the auditor requires a good understanding of the client's systems as a necessary prerequisite to effective audit work. It has been argued that internal control is really about people and if the people factor is missed then little useful work will ensue. The truly effective auditor is one who is able to extract all the required information from whatever source in an efficient manner. This requires talking to people, asking questions and securing assistance throughout the audit process and people-skills should be skillfully applied.

Introduction to Internal Auditing

4. Basic Audit Concepts

The new look auditor is focused on risk and adding value but what does this person look like?

What makes for a good internal auditor?

Introduction to Internal Auditing

4. Basic Audit Concepts

More than anything, the auditor must be credible. Audit work that is planned, performed, reported or simply referred to, should be irreproachable. It has to be trusted as the best possible result available under the circumstances. That is not to say, it is fool-proof. It is just that audit work must be professional - which takes us full circle to the need for credibility.

Competence is not something that we can make up and change on a day-to-day basis. Professional credibility has to be defined by referenced to professional research.

There is help at hand from the IIA's 2013 Competency Framework consists of 10 core competencies.

I. Professional ethics: Promotes and applies professional ethics.
II. Internal audit management: Develops and manages the internal audit function.
III. IPPF: Applies the International Professional Practices Framework (IPPF).
IV. Governance, risk and control: Applies a thorough understanding of governance, risk, and control appropriate to the organization.
V. Business acumen: Maintains expertise of the business environment, industry practices, and specific organizational factors.
VI. Communication : Communicates with impact.
VII. Persuasion and collaboration: Persuades and motivates others through collaboration and cooperation.
VIII. Critical thinking: Applies process analysis, business intelligence, and problem solving techniques.
IX. Internal audit delivery: Delivers internal audit engagements.
X. Improvement and innovation: Embraces change and drives improvement and innovation.

Introduction to Internal Auditing

There are many different views on what makes a good auditor. Larry Sawyer famously said that when pointing your finger at something, make sure your nails are clean.

Our model shows how different grades of auditor will need different types of skills, knowledge and abilities.

With the Chief Audit Executive being able to conceptualize the high level goal and mission of the audit role.

It is also important to ensure auditors have specialist skills that fit the demands of the organization in question. You can read a bit more about this competence model on the next page if you wish.

HIGH

Chief Auditor

Audit Managers

Senior Auditors

Auditors

Trainees

GRADES

conceptualizing skills

communications skills

technical skills

LOW

LEVELS OF SKILLS BASE

HIGH

Introduction to Internal Auditing

Audit Competence

Our Competency Framework

The importance of defining and developing suitable audit competencies for the new look internal auditor is crucial to the future of the profession. Most audit units have achieved a heightened expectation from senior executives and board members, having explained their potential impact on the crucial risk and control architecture, that organizations now need to construct.

The task is how to help deliver good solutions, endorsements and advice on risk management and internal controls. Our simple model sets out three different levels of skills that are related to the seniority of the audit staff as follows:

1. Technical Skills

These skills relate to basics of audit technique and are about being able to plan, perform and report audit work. The fieldwork stage may involve extracting and logically analysing evidence in line with set criteria for professional auditing.

2. Communicating Skills

This aspect is more to do with the way an auditor is able to engage with people and how to ask questions and understand the business through the eyes of clients and partners. There is a old saying the good control is about the way people behave within an organization - the way risk is perceived and managed. The auditor needs to understand managers and their staff and relate to them in a positive manner.

3. Conceptualizing Skills

Big picture thinking is needed to engage with the wider governance framework and understand the way the adopted business model creates value for its owners and dependants. An awareness of some of the complex issues that fall out of the corporate risk landscape that the business exists in, depends on an ability to appreciate the way fast moving entities deal with uncertainty.

Let's reinforce the view that the internal audit role is set firmly within the governance, control and risk management agenda. Within the context of the aims and results of the organization, internal audit can adopt three 'A' to reflect its key roles.

➢ To provide assurances.
➢ To give advice.
➢ To alert management to new risks.

We have added another possibility (Accuse) that some may not agree is a valid audit role. That is, to accuse anyone who is negligent in the way they exposed the business to unnecessary risk.

The key is to understand the corporate agenda and be respected in giving reliable assurances, while also acting as helpful advisors where required.

Corporate Aims

Corporate Governance Framework

Risk Management process

Assurances

Advice

Alert

System of Internal Controls

Accuse?

Corporate Results

Introduction to Internal Auditing

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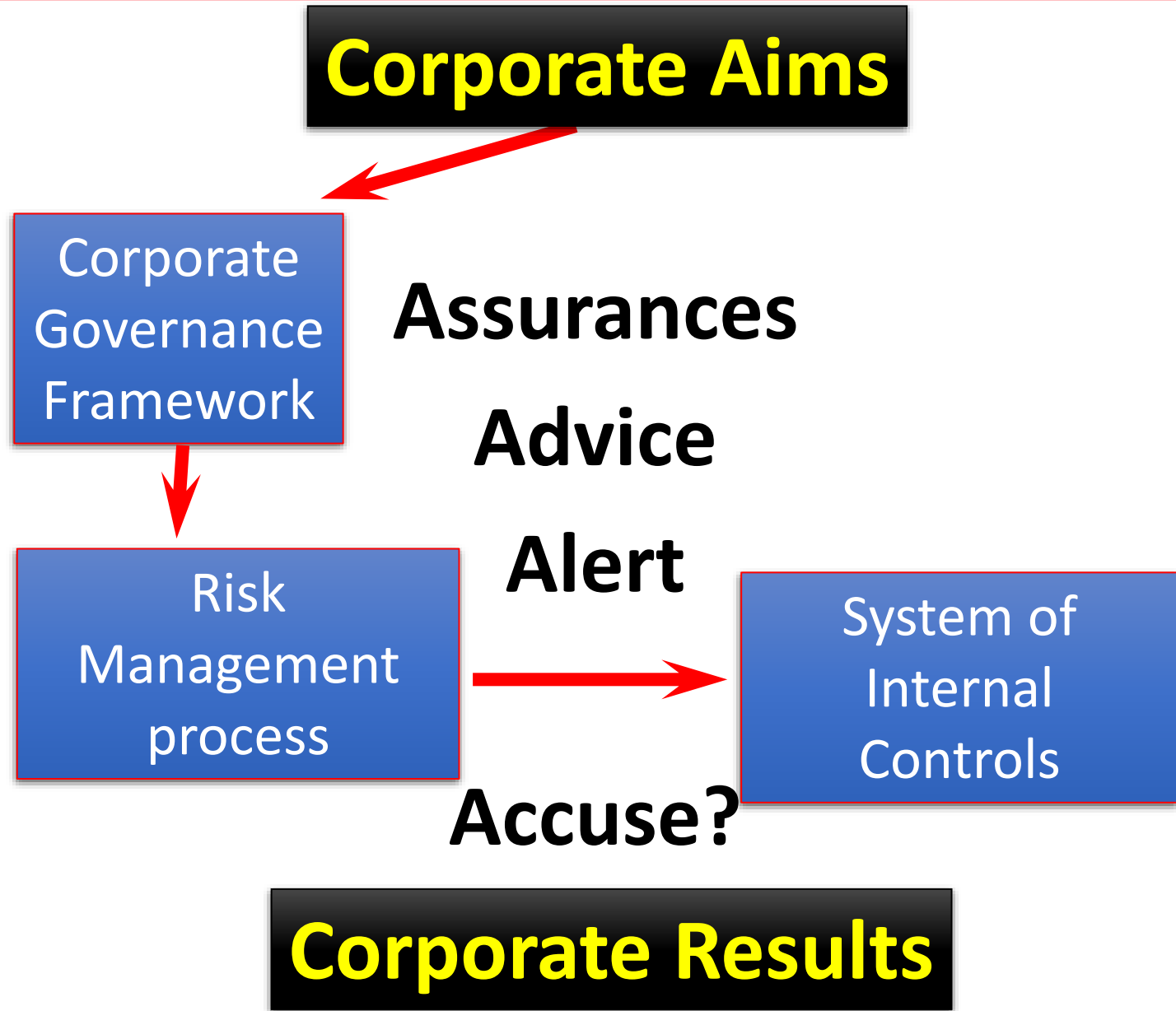
The big question is, can the summation of individual audits enable the CAE to provide assurances that comment on the entire organization?

Or should the CAE start to prepare corporate wide reviews of the assurance infrastructure and implant audit work within these maps to give a holistic picture of the quality of risk management within the organization?

We'll examine this issue in more depth later on in your Tutorial.

One way of getting to grips with the assurance map is to take the various committees and forums that report in to the main board and argue that these bodies represent the assurance infrastructure in that each committee is there to give assurances on a major aspect of the corporate issues that are uppermost in the minds of the board.

Internal audit may be moving to a position where they will be reviewing the extent to which these committees work in giving assurances on areas that they are charged to take care of.

Although internal audit can never set the level of acceptable risk, it can comment on the extent to which risk management is aligned to what is viewed as acceptable by the board.

Introduction to Internal Auditing

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4.
Basic Audit
Concepts

Introduction to Internal Auditing

Before we go to the next part, let me give you a concluding remark.

The audit charter sets out the concepts of independence and professionalism, which every auditor should aspire to.

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Your Tutorial

5. QUALITY ASSURANCE

1. History of IA
2. Auditing Standards
3. Scope of Audit Work
4. Basic Audit Concepts
5. Quality Assurance
6. The Audit Image
7. Governance & Risk Management
8. The Audit Strategy & Planning
9. Audit Fieldwork
10. Adding Value

Introduction to Internal Auditing

PROGRESS
MARKER
28 %

BCT

5.
Quality
Assurance

Where audit has set out its role and responsibilities, then the service it is meant to achieve, should be professionally delivered.

Quality is all about this simple concept.

IIA Attribute Standard 1321

IIA Standard 1321 makes clear that the CAE may state that the internal audit activity conforms with the IPPF only if the results of the quality assurance and improvement programme support this statement.

Introduction to Internal Auditing

We have looked at the IIA standards which set defined aspirations for the professional audit team.

But how can you make sure these standards are being met?

How can the Chief Audit Executive ensure that their audit teams are living up to the standards set by the IIA's framework?

5.
Quality
Assurance

The CAE will want to recruit quality auditors but there is still a need to ensure the work meets professional standards.

We can address this question of ensuring professional standards are met by considering three topics:
1. Due professional care

2. Supervision

3. Internal and external review

The idea is to Get It Right First Time!

Introduction to Internal Auditing

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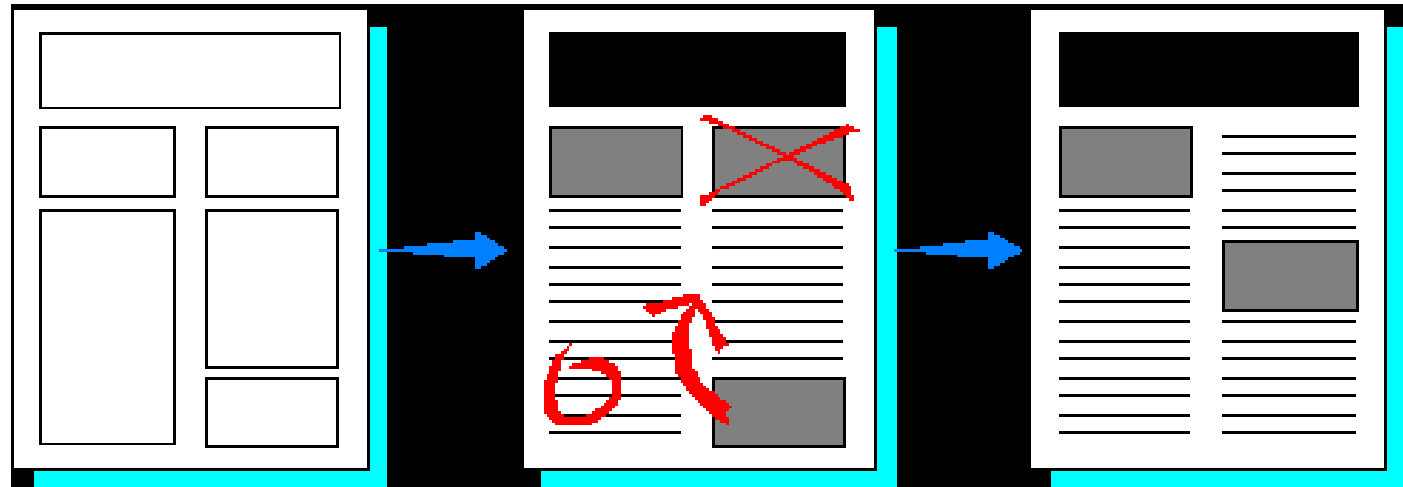
We can put the various quality assurance mechanisms together to form a whole system of control.

It would be wrong for internal audit to be portrayed as experts in control while not being able to show how they are able to control their own services.

Introduction to Internal Auditing

impact on organization

Supervision

client feedback

Quality Assurance

External Review

Internal Review

the external auditor
within group of companies
reciprocal reviews
other external auditors
consultants

at the audit
spot checks
annual overview

Quality Assurance Mechanisms

SWOT analysis

staff development

Strategic Planning Mechanisms

BCT

Ensuring Due Professional Care during the audit process is becoming an increasingly onerous requirement for the internal auditor.

Attribute Standard 1220 (Due Professional Care)

States that internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

Standard 1220.A1 goes on to say that the internal auditor should consider the:

➢ Extent of work needed to achieve the engagement's objectives;

➢ Relative complexity, materiality, or significance of matters to which assurance procedures are applied;

➢ Adequacy and effectiveness of governance, risk management and control processes;

➢ Probability of significant errors, fraud, or non-compliance; and

➢ Cost of assurance in relation to potential benefits.

Introduction to Internal Auditing

Before we get into supervision and review. Let's have a look at a process for ensuring a quality audit product.

The idea is to focus on consistency.

Being consistently focussed, consistently professional and consistently successful in delivering quality audit services.

So that every time an audit is carried out or any type of audit services are provided – they are consistently professional.

A QA Process

1 Adopt suitable professional standards.

2. Redefine the above as local standards via the audit manual.

3. Implement them via a formal procedure whereby staff are advised as to the requirements of these standards.

4. Train and develop staff to meet them.

5. Review compliance with standards.

6. Deal with any non-compliance as serious issues.

7. Review these standards to ensure that they make sense.

8. Seek to relate quality problems with these standards in terms of gaps therein or non-compliance.

Auditors should be able to discharge their audit role in a professional manner and audit management will supervise this work in an appropriate manner.

IIA Performance Standard 2340 (Engagement Supervision)

States that:

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

The audit review by the supervising auditor (lead auditor) should be ongoing and based around ensuring the auditor complied with procedures.

These procedures play the key role when audit management is considering the quality of an audit.

The reviewer should also consider the time charged to the audit job. Excessive chargeable hours can be a difficult problem and the next page contains a brief note on this.

Supervisory Reviews

1. What were the procedures relevant to this audit? The answer will vary according to the type of work performed and the experience of the auditor in question.
2. Have these procedures been fully communicated to the auditor who carried out the work?
3. Is there sufficient evidence of compliance with these procedures?
4. Is there any evidence of non-compliance with these procedures?
5. Is there any explanation for apparent non-compliance?
6. Has the audit been a success, i.e. achieved its objectives? If this is not the case, do procedures, or the way they are used (or not used) need revising in any way?

Excess Hours Charged

This can be a problem area. Audit resources can be regarded as the sum of chargeable hours. Time is the most important factor that must be controlled by audit management which requires:

1. Authorized budgets set for jobs.
2. Audit time recording system accurately recording time spent on each job or overhead (e.g. training).
3. Regular reports on hours charged.
4. Effective management action on overruns.

If there are weaknesses in any of the above, then this control over audit time will not operate properly. Even where this system is in place there may still be excess hours charged to jobs. This occurs where:

*   The budget was not set properly.
*   The budget is not seen as a serious issue.
*   Authorization was not secured for extended hours.
*   The audit entailed resolving unforeseen problems and/or difficulties.
*   The client asked for additional work.
*   The auditor decided to do additional work.
*   The auditor was 'dumping' time into the job; not all charged hours were worked on the project.
*   The auditor was inefficient.
*   The audit manager caused extra hours by excessive intervention or lack of it.

Effective management action requires communication, involvement and consideration if this system is to work and play a positive role in controlling audit projects.

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5. Quality Assurance

Introduction to Internal Auditing

The CAE should install a system of internal assessments to review whether everything is as it should be.

The IIA's Attribute Standard 1311

Requires the CAE to provide an internal assessment which should include:

➢ *Ongoing monitoring of the performance of the internal audit activity; and*

➢ *Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.*

It is advisable to appoint one audit manager responsible for quality assurance throughout the audit department.

This person will report periodically (say annually) to the CAE on the overall position and indicate whether any changes to current practices are required.

The internal review will consider various aspects of recent audits.

Internal Reviews

- The source of the audit — how it came to be conducted.
- The preliminary survey and how the terms of reference were set.
- The way the audit resources were assigned to the audit.
- The structure of the audit and whether it followed a logical approach.
- The way the documentation and testing was put together and whether this was enough to meet the audit terms of reference.
- The way the findings were gathered and placed into the report.
- The actual communication of findings and recommendations.
- Time management, budgets and the way audit hours were charged.
- The supervision, review and how problems were addressed.
- Whether the audit team understood the audit standards in use.
- The extent to which the audit added value to the operation.
- The contribution to the CAE's annual assurance on internal controls.
- And other considerations that impact on the quality of the audit.

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5.
Quality
Assurance

Introduction to Internal Auditing

The IIA's Attribute Standard 1312 deals with external assessments.

The IIA's Attribute Standard 1311

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

☐ The form and frequency of external assessment.

☐ The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

5.
Quality
Assurance

Have a go at this question.

Who is the best person to carry out an external review of the internal audit function?

Introduction to Internal Auditing

External assessments, such as quality assurance reviews, should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.

There are various options for commissioning this wide ranging review.

External Review – By Whom?

- **External audit**—Here an overemphasis on financial systems and support for the external audit role may bias the work.
- **Internal audit departments in groups of companies**—An informal policy of not criticizing each other may invalidate the work. Or fierce competition may make the reviews less than objective.
- **Reciprocal arrangements**—Here companies may review each other, although confidentiality may be a real problem.
- **Other external auditors**—Using other companies' external auditors helps reduce bias but they would still tend to have a financial orientation.
- **Consultant**—A consultant who specializes in internal audit reviews will probably be a better choice in terms of skills, independence and final result.
- **The IIA** – who offer an independent external assessment using their guidance on this task.

Introduction to Internal Auditing

Stakeholders such as the audit committee and the main board can input into the draft terms of reference in an attempt to ensure that the resulting report has value.

The review will look at whatever is set in the agreed terms of reference, which could for example, come from a risk workshop by the audit management team.

However, it may well include some of the following areas.

External Review Coverage

1. Audit charter
2. Organizational status
3. Independence
4. Codes of conduct
5. Mix assurance & consulting
6. Audit strategy
7. Relations board/managers
8. Interface - audit committee
9. Links with external audit
10. Performance measures used
11. Communications between auditors
12. Mix of specialist
13. Complaints procedure
14. Structure and flexibility
15. Competence & qualifications
16. Morale among auditors
17. Formal training programs
18. Research on best practice
19. Audit Planning & completion rates
20. Budgetary control
21. Accomplishing objectives
22. Plan & control of audits
23. Working papers
24. Data analytics tools
25. Balance work-life issues
26. Diversity among staff
27. Internal quality reviews
28. Client survey questionnaire
29. Recommendations agreed
30. The value add proposition

5.
Quality
Assurance

Before we go to the next part, let me give you a concluding remark.

Quality underpins the auditor's work. And the quality assurance process needs to be sharp and constantly fine tuned by the CAE.

Introduction to Internal Auditing

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Your Tutorial

6. THE AUDIT IMAGE

1. History of IA
2. Auditing Standards
3. Scope of Audit Work
4. Basic Audit Concepts
5. Quality Assurance
6. The Audit Image
7. Governance & Risk Management
8. The Audit Strategy & Planning
9. Audit Fieldwork
10. Adding Value

Organizational objectives

Audit Charter

Assess risk priorities

Management's Needs

Resource prioritized areas

Audit strategic plan

Resource Implications

Annual audit plan

Annual Audit Report

Audit Budget

Quarterly audit plan

Quarterly Audit Report

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

THE AUDIT REPORT

Introduction to Internal Auditing

6.
The Audit
Image

What is the missing phrase:
In the past, internal audit was seen as an integral component of the
………………………………

designed to double-check accounting transactions. The idea was to re-check as many items as possible so as to provide this continuous audit.

Would you chose 1, 2 or 3 as the most appropriate response? The correct answer is on the next page.

?

1 budgetary control

2 operational performance

3 internal control procedures

Introduction to Internal Auditing

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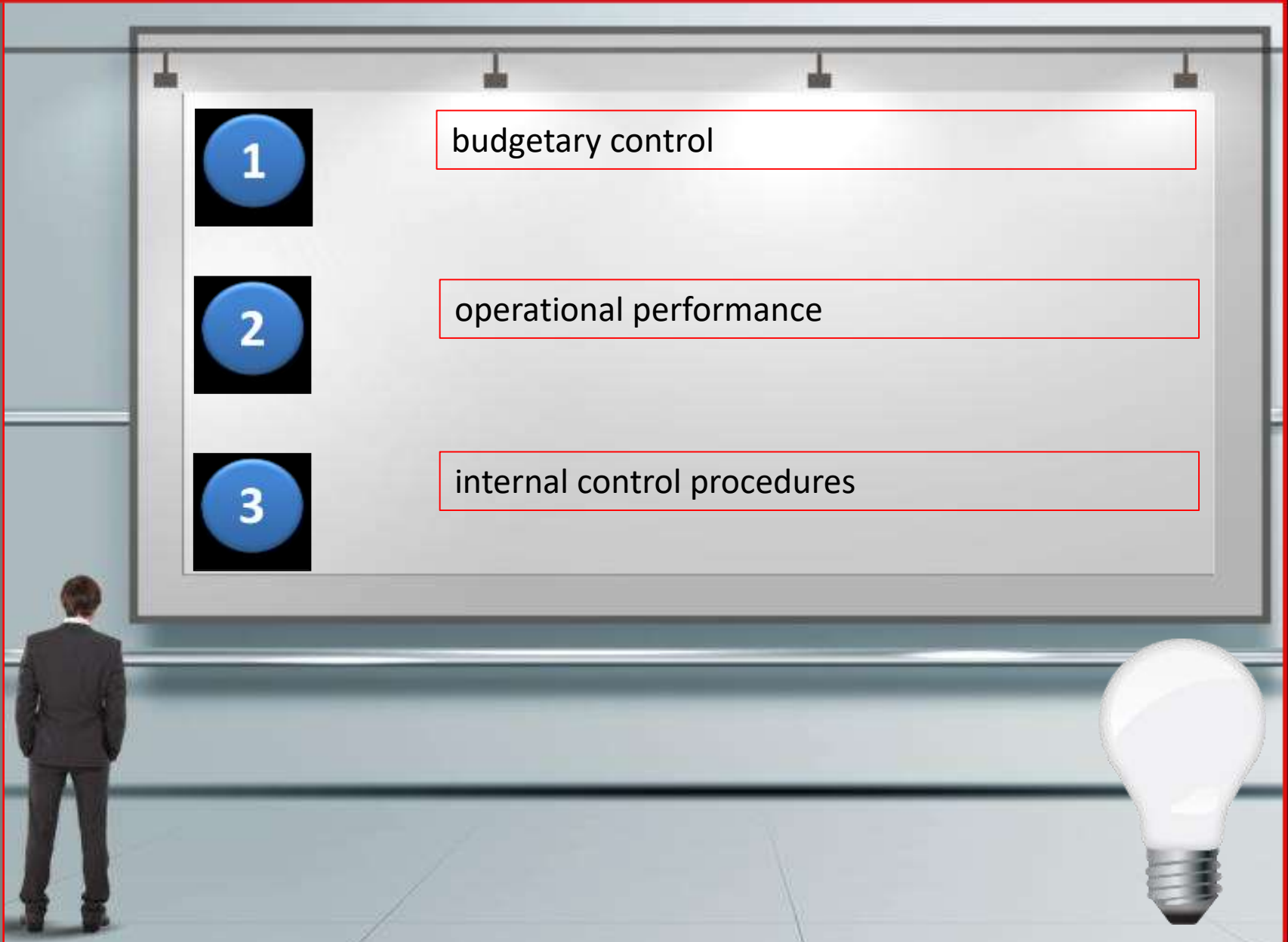
As we consider the image of the internal auditor, just remember that this old fashioned view of auditors as low level checkers may still persist in the minds of many employees.

1 ❌ budgetary control

2 ❌ operational performance

3 ✅ internal control procedures

?

Introduction to Internal Auditing

6.
The Audit Image

In many sectors, internal audit is required by law but that is no reason not to market the audit service to ensure it is fit for purpose.

How can we do this?

Now we have a good quality assurance process in place, how best can internal audit market their services?

Introduction to Internal Auditing

Before we tackle this idea of marketing, let's have a look at the 'Acid Test' for an effective internal audit.

6. The Audit Image

Introduction to Internal Auditing

One Response

There is one useful way of assessing whether our marketing efforts have interfered with the levels of independence that we should have achieved. A purist's view would have an acid test that insists that internal audit is not independent if their activities keep parts of the business from failing, since audit should be free from any operational involvement. The dilemma, from a marketing angle, is that this exposes the audit role and makes it akin to a dispensable commodity. There is an inherent conflict between the general marketing concept and the independence test that must be recognized and managed by the CAE.

6.
The Audit
Image

This model represents what we call the audit marketing concept. We move from judging audit on what its costs, and then the quality of its work through to 'selling' and audit concept as something that is valuable to the organization.

The marketing concept takes all these issues and builds them into a whole process for ensuring a valuable and well received service – that is responsive to client's needs. The wide range of audit stakeholders are noted on the model.

You can explore a bit more on the next page if you wish.

Production Concept

(costs)

Product Concept

(quality)

Selling Concept

(promotion)

Marketing Concept: Client Needs
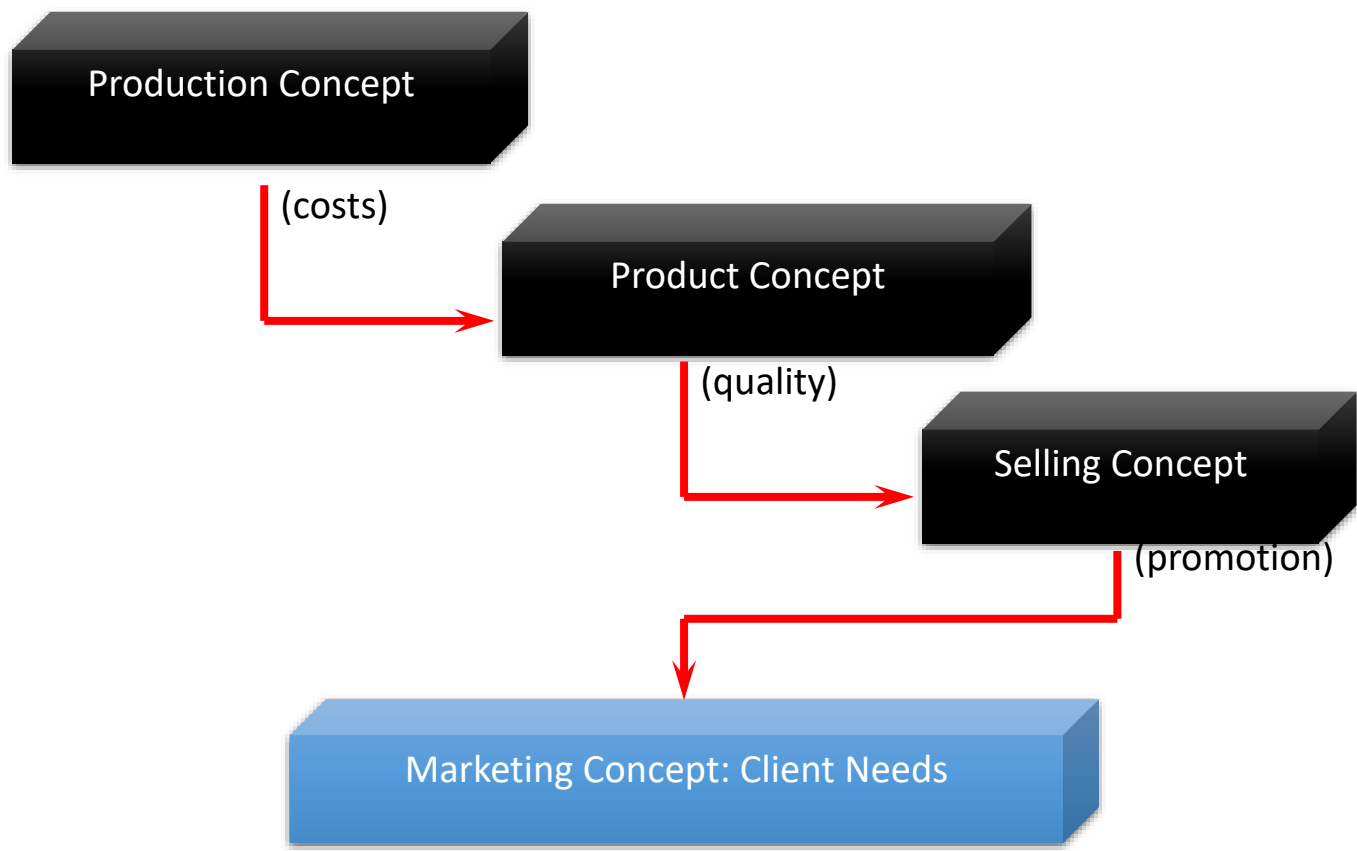
Main Board   Audit Committee   Chief Executive

Director of Finance   Top Management   Middle Management

Front-line Staff   External Audit   Owners

Introduction to Internal Auditing

Marketing Audit Services

There are different approaches to marketing audit services, including the following:

* The Production concept seeks to minimize the costs of the audit, which translates to the number of hours spent on each individual project.
* The Product concept will on the other hand concentrate on the audit itself and suggests that so long as the work is good and the report is done to quality standards everything will be fine.
* The Selling concept is particularly relevant to internal audit in that it suggests we need only ensure that the client pays for our services, which may be mandatory in most organizations who resource an audit function.
* The Marketing approach, on the other hand, takes the view that we must first find out what is required by the organization and then seek to meet these requirements.

No matter how efficient or professional the audit work is, so long as we have not fed our work into client expectations then our future is not assured. This may come as a surprise to many auditors who do not believe that they (or the CAE) work for anyone.

There is a link between marketing and audit strategy, and many strategic decisions will have an impact on the marketing plan. As a result, the strategic plan should also incorporate the marketing plan and revisions to strategy may well affect the way internal audit is marketed. These plans should be assimilated into audit strategies and form the basis of discussions at the audit manager meetings that should be held regularly. One audit marketing strategy uses seven key principles:

1. To act as partners with management focusing on adding value while maintaining the necessary independence.
2. To align the audit planning to the aims, objectives, risks and processes of the organization.
3. To champion the continuous improvement of the systems of risk management and associated internal controls.
4. To provide accurate and timely advice and assurance to management.
5. To invest in quality staff, training and techniques.
6. To be professional in everything we do.
7. To provide a cost-effective and valued service.

It is one thing to have good professional standards, but audit is the combined efforts of the auditors, which requires the following attributes from each and every internal auditor.

It may be an idea to organize a series of seminars (or a slot at the corporate annual conference) to reinforce the audit concept.

Marketing – A Personal Touch

- Politeness, having regard to the need to respect fellow employees at whatever grade.
- Being positive by building constructive working relations with management.
- Sensitivity to management's needs.
- Respect for confidentiality with an understanding of the damage that idle gossip can do.
- A team-based audit approach working with and alongside management.
- A hard-working attitude with a constant mission to encourage management to promote good controls.
- A desire to explain the role of audit and promote the audit service wherever possible.

6.
The Audit Image

Introduction to Internal Auditing

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Professionalism is a must. This is demanded of a modern internal audit team.

But there is so much more to do to create the right audit image within an organization.

And the audit management team should be responsible for making this work.

There are quite a few sources of marketing information and some of them are listed on the next page.

Marketing – A Personal Touch

Audit brochure

Presentations

Creating the Right Image

Complaints procedure

Audit Web site

Client feedback Surveys

Talking to people

Interpersonal skills

Published annual report

Introduction to Internal Auditing

BCT

Marketing decisions must be based on sufficient information and some of the main sources of this information can be noted. The CAE should have regular contact with senior management to discuss general audit-related matters.

But - IS AUDIT A 'NAUGHTY' WORD?
Most audit text books make reference to the impact that internal audit has not only on systems but also on people, and stress the importance of understanding human behaviour. This is sometimes extended by the view that auditors face various complicated issues because of their special position in the organization.

An important factor in good client relations is finding common ground.

6.
The Audit Image

* General feedback from auditors on managements' views.

* Level of complaints from clients.

* Formal responses from the audit committee.

* Results of the formal client survey.

* Surveys of competitors.

* Internal reports produced by the organization that mention internal audit.

* Feedback from auditors.

* Informal contacts with employees and people associated with the organization.

Introduction to Internal Auditing

6. The Audit Image

There is really no excuse for failing to reach the exacting levels of performance and high profiles that many internal audit shops are now achieving.

Marketing becomes a personal responsibility whenever the auditor meets with clients. Observing good interview protocols normally leads to a good interview, which is particularly important for the opening meeting with the client and the wrap-up meeting to discuss audit work.

However, there are many interviews that go badly wrong, and end in acrimony on both sides, despite all the preparation and planning carried out. The next page suggests why this problem can arise.

Professionalism

Professional standards abound, and internal auditing has been knocking on the boardroom door for many years now. The new millennium has seen a major shift in the roll call of professional disciplines that has placed internal auditing right up there with the accountants, lawyers, top flight consultants, business analysts and so on. Professional standards create the targets that need to be aimed at, even where the audit shop is small.

It is essential that each internal audit team tracks developments in professional standards and incorporates new aspects into their own policies and interpretations of the audit role.

Introduction to Internal Auditing

6.
The Audit
Image

Difficult interviews can be confusing to the new auditor, although such problems may possibly be explained through a model we can call Finding Common Ground.

This approach is based on three interfacing factors based on:
* Internal Auditor's Perspective.
* Client Manager's Perspective.
* Corporate Risk Landscape.

Check the next page if you want to explore this idea.

Introduction to Internal Auditing

Finding Common Ground

1. Auditor's Perspective

The auditor's agenda may cover several perspectives and a success assessment criteria that includes the need to:

* Look good.   * Get cooperation.   * Spread risk and control messages.

* Prepare assurances on adequacy of controls.   * Get to the truth.   * Help the client improve things.

2. Client's Perspective

Meanwhile the client may be more concerned with the need to:

* Look good.   * Decide whether to cooperate.

* Avoid a 'bad' audit report.   * Ensure staff do not get inconvenienced/stressed.

* Get rid of the auditor as soon as possible.   * Listen to and 'hear' any hidden messages.

* Find out whether the audit will help the business at all.

3. Corporate Risk Landscape

The third aspect is for the auditor and client to work together to improve the way risk is managed, which revolves more around the need to;

* Establish contact between the two parties.   * Agree the work to be done and timing.

* Set terms of reference.   * Deal with any foreseeable problems.

* Improve the risk management and control system.   * Adhere to interviewing protocols.

The key is to recognize these different agendas and the importance they hold for all three perspectives of the interview by understanding different agendas and being aware of the concerns and unspoken views from both the audit side and also the client side is a good start place. It is also well to focus on the aim of the interview, i.e. the official agenda, and ensure that this is not lost sight of. The auditor should appreciate that a reluctance from the interviewee does not necessarily mean this person does not wish to cooperate and has something to hide. It may just be that one of the 'outside' issues has been touched on and needs to be explored further. Often different agendas happen because the client believes some of the myths about auditors who are seen to be unhelpful nit-pickers whose job is to 'get managers'.

6.
The Audit Image

Before we go to the next part, let me give you a concluding remark.

Internal audit should market their services. Making sure clients understand what to expect and how this helps them is essential.

Introduction to Internal Auditing

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7. Gov. & Risk Man.

Your Tutorial

7. GOVERNANCE & RISK MAN.

1. History of IA
2. Auditing Standards
3. Scope of Audit Work
4. Basic Audit Concepts
5. Quality Assurance
6. The Audit Image
7. Governance & Risk Management
8. The Audit Strategy & Planning
9. Audit Fieldwork
10. Adding Value

Introduction to Internal Auditing

PROGRESS MARKER 37 %

What is the missing phrase: A "……………………" approach to corporate governance structures is unrealistic, which is why most codes are both voluntary and fairly general in the way they define set standards.
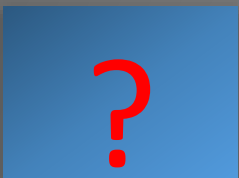
Would you chose 1, 2 or 3 as the most appropriate response? The correct answer is on the next page.

?

1 Substance over Form

2 One Size Fits All

3 Systematic

7. Gov. & Risk Man.

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An Answer

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7.
Gov. & Risk
Man.
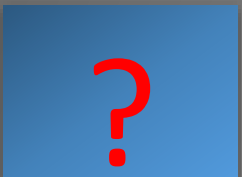
You cannot review the governance arrangements in your organization unless you understand and appreciate how they work. There is no checklist that says how governance should be done – just general principles that should be considered. Many sectors have regulations for some of the basic things that should be in place.

Let's explore this idea of good governance.

1 ✗ Substance over Form

2 ✓ One Size Fits All

3 ✗ Systematic

?

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Good Governance

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7.
Gov. & Risk
Man.

Good Governance is about adhering to three simple ideals that cover openness, accountability and integrity.

These ideals underpin a positive risk culture in your organization and help drive the context for the internal audit role.

There is a seprate eGuide on Governance, Risk and Controls Assurance that goes into much more detail.

Ensure that you tell your stakeholders about key risks and how they are managed
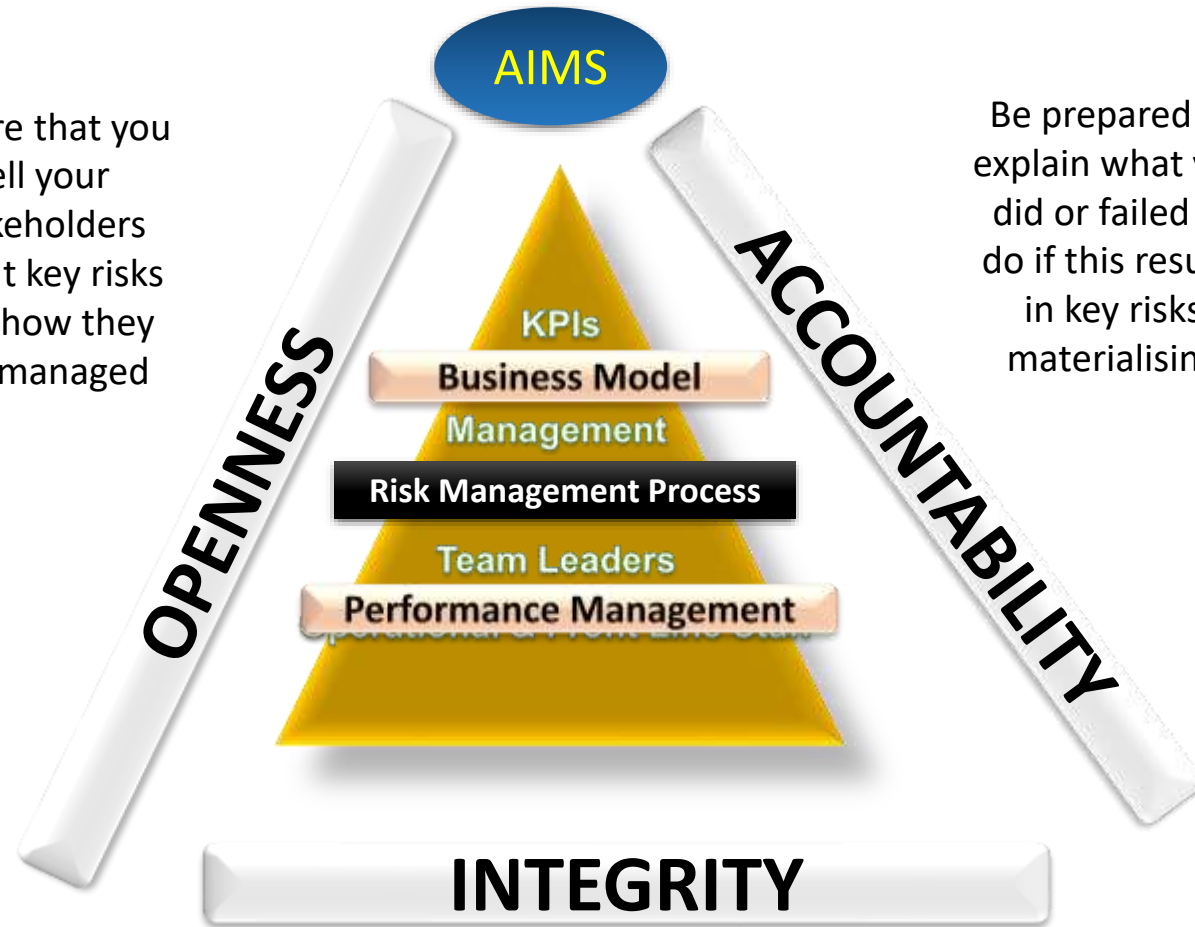
Be prepared to explain what you did or failed to do if this results in key risks materialising

AIMS

OPENNESS

ACCOUNTABILITY

KPIs
Business Model
Management

Risk Management Process

Team Leaders
Performance Management

INTEGRITY

Be honest about the way key risks are affecting your business and how you are managing these risks

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Good Governance – Lines of Defence

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7.
Gov. & Risk
Man.

Let's re-cap the three lines of defence in securing good risk management across the organization.

And in providing assurances to stakeholders that all is well.

The internal auditors job is to review the first two lines of defence. And provide support and advice, wherever possible.

The Frist Line of Defence

The Second Line of Defence

AIMS

MANAGEMENT

RISK & COMPLIANCE TEAMS

KPIs
Business Model
Management
Risk Management Process
Team Leaders
Performance Management

INTERNAL AUDITING

The Third Line of Defence

Introduction to Internal Auditing
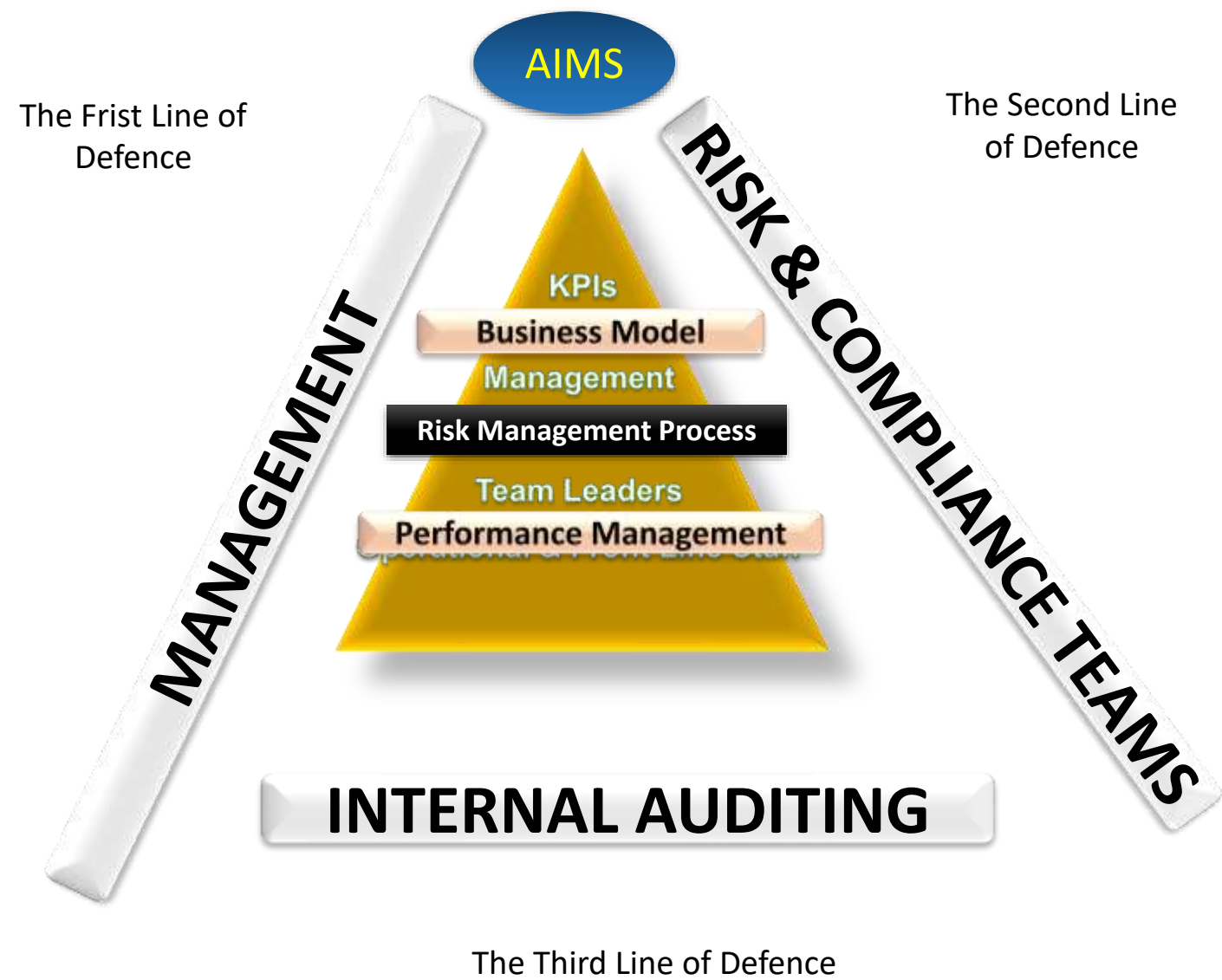
There are several thought leaders who feel that the three lines of defence model can be further improved.

In truth, there are many other lines that could be included to ensure effective Governance Risk Management.

Introduction to Internal Auditing

EXTERNAL RISKS

INERNAL RISKS

STAKEHOLDERS

Corporate Reputation

Corporate Strategy

Performance Management

Final Accounts

External Audit

Audit Committee

Board of Directors

Executives

AIMS

KPIs

Managers

Supervisors

Team Leaders

Support Staff

Operational and Front Line Staff

Risk & Compliance Management

Internal Auditing
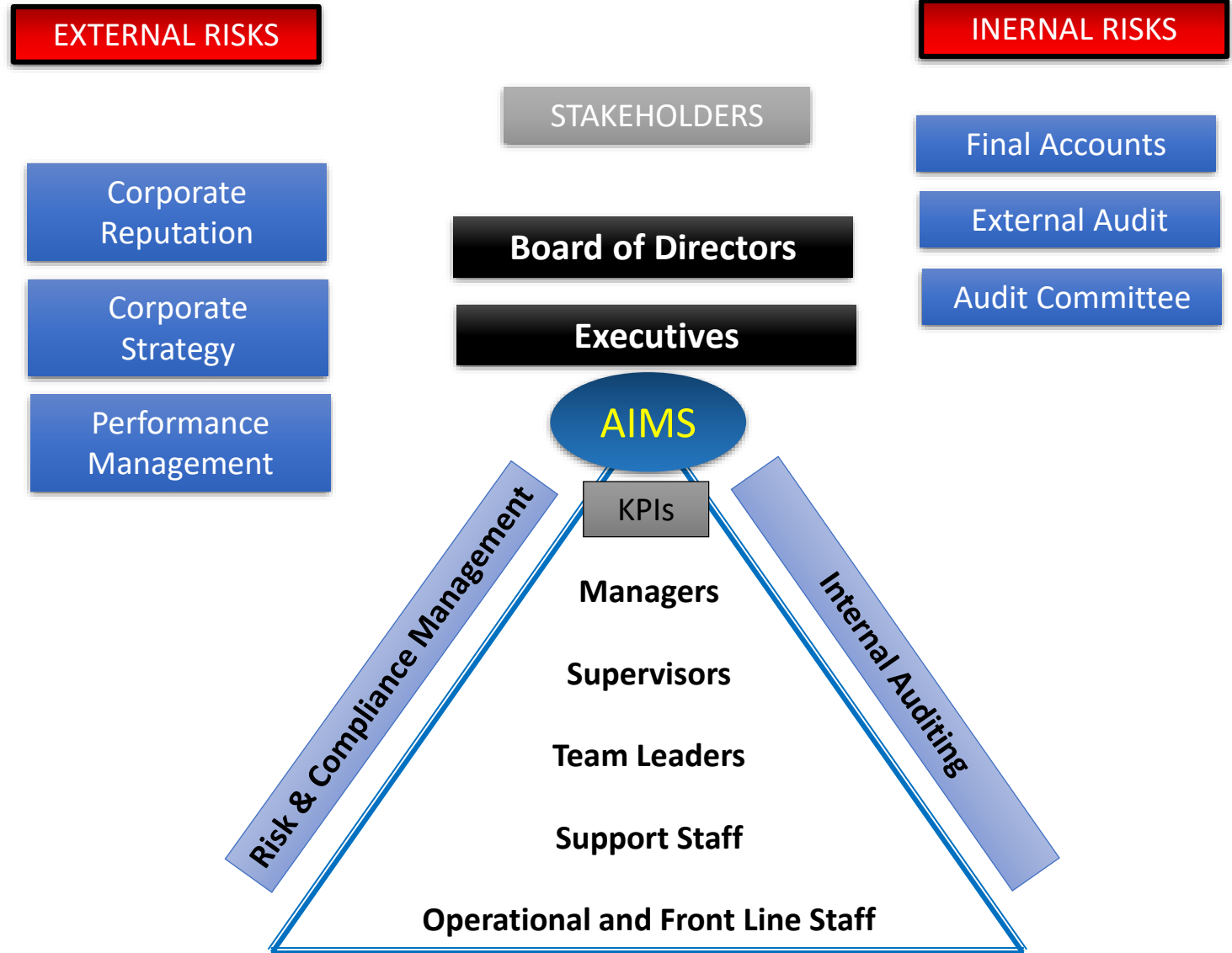
We could argue that Good Governance depends on seven lines of defence:

1. Stakeholders who engage and challenge the entity to be fair and achieve more with less.

2. Accountability structures involving professional final accounts, external audits and competent audit committees.

3. Corporate disclosures on how risk is addressed to underpin sound performance.

4. A balanced and experienced board.

5. Dynamic executives with competent managers and staff groups.

6. Well resourced risk and compliance teams.

7. Excellent and highly professional internal auditors.

We'll have a quick look at the Audit Committee on the next page.

EXTERNAL RISKS

INERNAL RISKS

1

STAKEHOLDERS

3

2

Final Accounts

4

External Audit

Board of Directors

Audit Committee

Executives

5

Corporate Reputation

Corporate Strategy

Performance Management

AIMS

KPIs

Managers

Supervisors

Team Leaders

Support Staff

Operational and Front Line Staff

Risk & Compliance Management

Internal Auditing

6

7

Introduction to Internal Auditing

7.
Gov. & Risk Man.

Most governance codes require listed companies to establish Audit Committees that report to the main board and deal with many specific governance issues:

➢ The final accounts.
➢ External audit.
➢ Compliance with regulations.
➢ Risk management and internal controls.
➢ Internal audit. Note that the audit committee will oversee the role and performance of internal audit and approve the annual audit plan.

Many organizations also set up Risk Committees as the need to ensure risk is properly understood and managed is crucial in these fast moving times. Remunerations committee are also part of governance arrangements with the task of trying to align executive pay with market expectations and good performance. The committee structure goes on and on as high risk issues such as Corporate Ethics, Cyber Security, Digital Transformation and Terrorism Resilience may each call for board level presence. There is a short note on audit committees on the next page you may want to read.

Introduction to Internal Auditing

The Chief Audit Executive should meet privately with the Chair of the Audit Committee and use this forum to discuss any impairments to the ability of audit to provide a professional and independent service.

BCT

Audit Committee Basics

The Audit Committee (AC) should be adopted by the board to provide support to the board and help them discharge their duty to maintain an oversight of the quality, professionalism and integrity of the accounting, auditing, risk management & internal control, compliance issues, employee conduct and financial reporting practices; and the overall corporate governance arrangements. It may request investigations into any issues that impact on their main role and additional duties may be assigned to the audit committee by the board.

The AC may furnish an annual report to the board on the performance of risk management and internal control, and the performance of internal audit, external audit and control self assessment exercises. While the audit committee gives stakeholders some comfort that their investment is under control, there is still an overriding bond between the board and the audit committee in most large organizations.

In addition to the audit committee there should be a Remunerations Committee to promote fair and transparent arrangements for remunerating executives and board members. This forum allows a degree of independence where directors do not set their own fees, salary and bonuses, which can be done through consultants who specialise in this task. The more risk an investor is prepared to absorb, the greater the anticipated return. This equation is pretty straightforward and explains the difference between investing in a risky new start-up venture and investing in an established industry leader. Some organization establish a Risk Committee to oversee the way risk is being managed.

The AC has an important role in ensuring the board is able to meet its duty to deliver a reliable set of annual report and accounts. Committee members should seek to ensure management is equipped to install effective risk management and controls in the organization. It will also advise the board on all matters that fall under its specialist remit.

Competent and experienced NEDs should sit on this committee and ensure they are able to commit sufficient time and effort to the task of guiding and monitoring the accounting, audit, accountability, ethical values and governance arrangements, with no conflicts of interest, real or perceived. At least one member should have some financial expertise.

Have a look at standard 2110 which shows the internal auditor's challenge when reviewing governance processes.

IIA PERFORMANCE STANDARD

2110 – Governance

The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for:

➢ Making strategic and operational decisions.
➢ Overseeing risk management and control.
➢ Promoting appropriate ethics and values within the organization.
➢ Ensuring effective organizational performance management and accountability.
➢ Communicating risk and control information to appropriate areas of the organization.
➢ Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.

2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.

IIA Standard 2120 on Assessing the Adequacy of Risk Management Processes gives an interpretation of this requirement.

But what services should audit be providing in respect of the risk management process – and what is out of bounds?

The next page has some answers.

IIA PERFORMANCE STANDARD
2120 – Risk Management
Interpretation:
Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:
➢ Organizational objectives support and align with the organization's mission.
➢ Significant risks are identified and assessed.
➢ Appropriate risk responses are selected that align risks with the organization's risk appetite.
➢ Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization's risk management processes and their effectiveness.

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Range of Audit Services

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7.
Intro
Gov. & Risk
Man.

A old IIA Position Paper set out the audit role in Enterprise Risk Management (ERM). This ranges from core assurances services on the left to consulting services in the middle, to activities that should not be undertaken. The audit role will revolve around the reviewing the ERM process and assessing the way key risks are being managed and reported across the organization.

Coordinating ERM activities   Consolidated reporting on risks

Coaching management in responding to risks

Maintaining and developing the ERM framework

Championing establishment of ERM

Facilitating identification and evaluation of risks

Developing RM strategy for board approval

Reviewing the management of key risks

Setting the risk appetite

Imposing RM processes

Evaluating the reporting of key risks

Management assurance on risks

Evaluating RM processes

Taking decisions on risk responses

Giving assurance that risks are correctly evaluated

Implementing risk responses on management's behalf

Giving assurance on the RM process

Accountability for risk management

| Core Internal Audit Roles In Regard to ERM | Legitimate Internal Audit Roles with Safeguards | Roles Internal Audit Should not Undertake |

Introduction to Internal Auditing

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A Question

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7.
Gov. & Risk
Man.

What do you think should be the best approach for the internal auditor when considering risk management in the organization?

Would you chose 1, 2 or 3 as the most appropriate response? The correct answer is on the next page.

1 Check compliance with the way risk management is being conducted.

2 Help managers establish their arrangements to deal with risk and gain assurances on how it is managed.

3 Recommend sanctions against staff who fail to deal with risk adequately.

?

Introduction to Internal Auditing
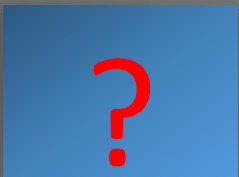
There is a much better way of providing audit services.

We'll describe one approach next.

1 ✗ Check compliance with the way risk management is being conducted.

2 ✗ Help managers establish their arrangements to deal with risk and gain assurances on how it is managed.

3 ✗ Recommend sanctions against staff who fail to deal with risk adequately.

?

7.
Gov. & Risk
Man.

Introduction to Internal Auditing
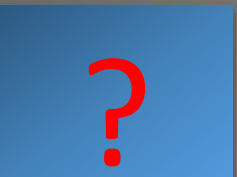
Sorry about the trick question.

Let's look at some of the different roles auditors may assume.

Internal audit should define a role that fits with the state of risk management within the organization which for simplicity we have divided into three stages:

Risk immature – internal audit should champion risk management practices and help management make it work.

Risk irresponsible – internal audit should challenge risk management practices.

Risk mature – internal audit should stand back and appraise risk management practices.

Before we go to the next part, let me give you a concluding remark.

Good Governance is the most important thing an entity can achieve, which makes the audit role crucial to the board and their management.

7. Gov. & Risk Man.

Introduction to Internal Auditing

Your Tutorial

8. AUDIT STRATEY & PLANNING

1. History of IA
2. Auditing Standards
3. Scope of Audit Work
4. Basic Audit Concepts
5. Quality Assurance
6. The Audit Image
7. Governance & Risk Management
8. The Audit Strategy & Planning
9. Audit Fieldwork
10. Adding Value

8.
Audit
Strategy

Introduction to Internal Auditing

PROGRESS
MARKER
41 %

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A Question

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8.
Audit
Strategy

Insert the missing word/s
Any audit objective must be linked directly into the organization's own objectives (or mission). The starting place for setting audit's role is to isolate what the .... is trying to achieve and then see how audit resources can assist this.

Would you chose 1, 2 or 3 as the most appropriate response? The correct answer is on the next page.

1 director of finance

2 organization

3 regulator

?

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An Answer

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8.
Audit
Strategy

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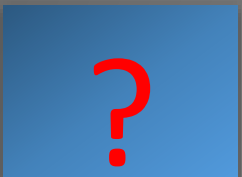
What your organization is trying to achieve should drive the way you plan the way your audit resources are applied.

The next few pages will show you why this point is so important.

1 ✗ director of finance

2 ✓ organization

3 ✗ regulator

?

The modern internal auditor does not work in a vacuum.

How can you make sure your work fits with what is required?

How can you make sure audit work fits into what the organization needs from its internal auditors?

8. Audit Strategy

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Audit Strategy

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8.
Audit
Strategy

A cornerstone of audit strategy is the corporate assessment of business risk.

This establishes an organization's risk and control needs.

It involves the ongoing task of capturing the key systems that underpin an organization so that material risks may be isolated and addressed.

Organizational objectives

Organizational Strategy

Risk Landscape Survey

Required Audit Products

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While audit objectives set out what we wish to achieve, risk profiles dictate how much work needs doing and the type of resources which are most appropriate.

Audit plans may be driven by the enterprise risk management process that is in place and there should be a clear alignment between audit risk profiles and the corporate risk landscape.

Introduction to Internal Auditing

Organizational objectives

Organizational Strategy

Risk Landscape Survey

Existing Resources

Required Audit Products

Existing Procedures

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Audit Strategy

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8.
Audit
Strategy

An audit risk survey necessitates discussion with senior and middle management and involves:

- A definition of the audit universe.
- An assessment of the relative risks inherent in each audit.
- Research into the type of problems units attract.
- Risk ranking related to resources subsequently assigned via the audit plan.

It is then possible to define any gap between the type of audit resources required and what is currently available.

Audit's strategic plan seeks to close this gap.

Organizational objectives

Organizational Strategy

Risk Landscape Survey

Existing Resources

Required Audit Products

Existing Procedures

PESTL & SWOT Analysis

Strategic Gap

Required Strategic Plan

Implementation

Review
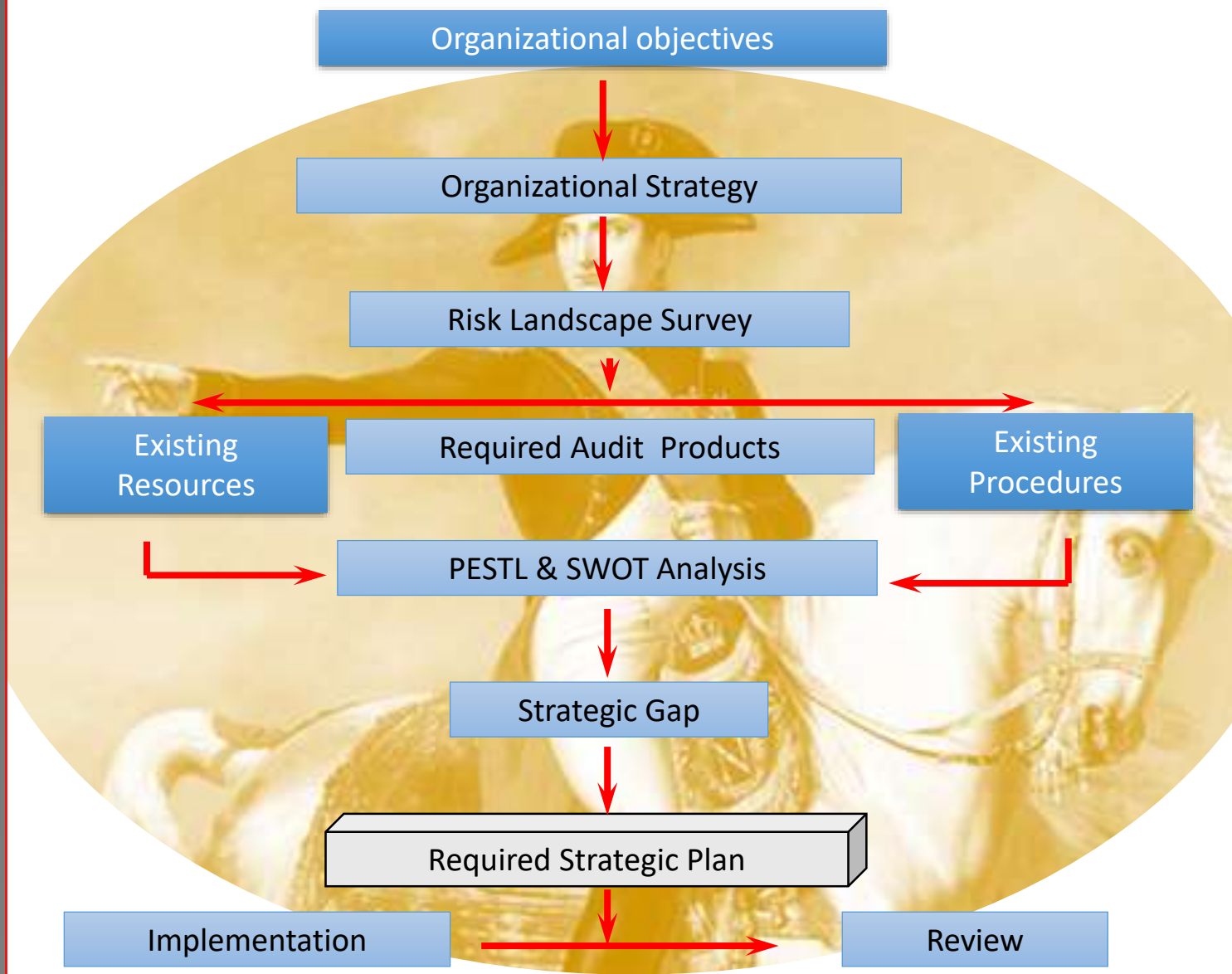
It is essential that the Required Audit Strategy is driven by the Organizational Strategy.

This means that audit plans, resources, skills, targets and services delivered by the audit team help move the business forward.

But in a way that is fair and responsible based on good governance principles.

Introduction to Internal Auditing

Organizational objectives

Organizational Strategy

Risk Landscape Survey

Existing Resources

Required Audit Products

Existing Procedures

PESTL & SWOT Analysis

Strategic Gap

Required Strategic Plan

Implementation

Review
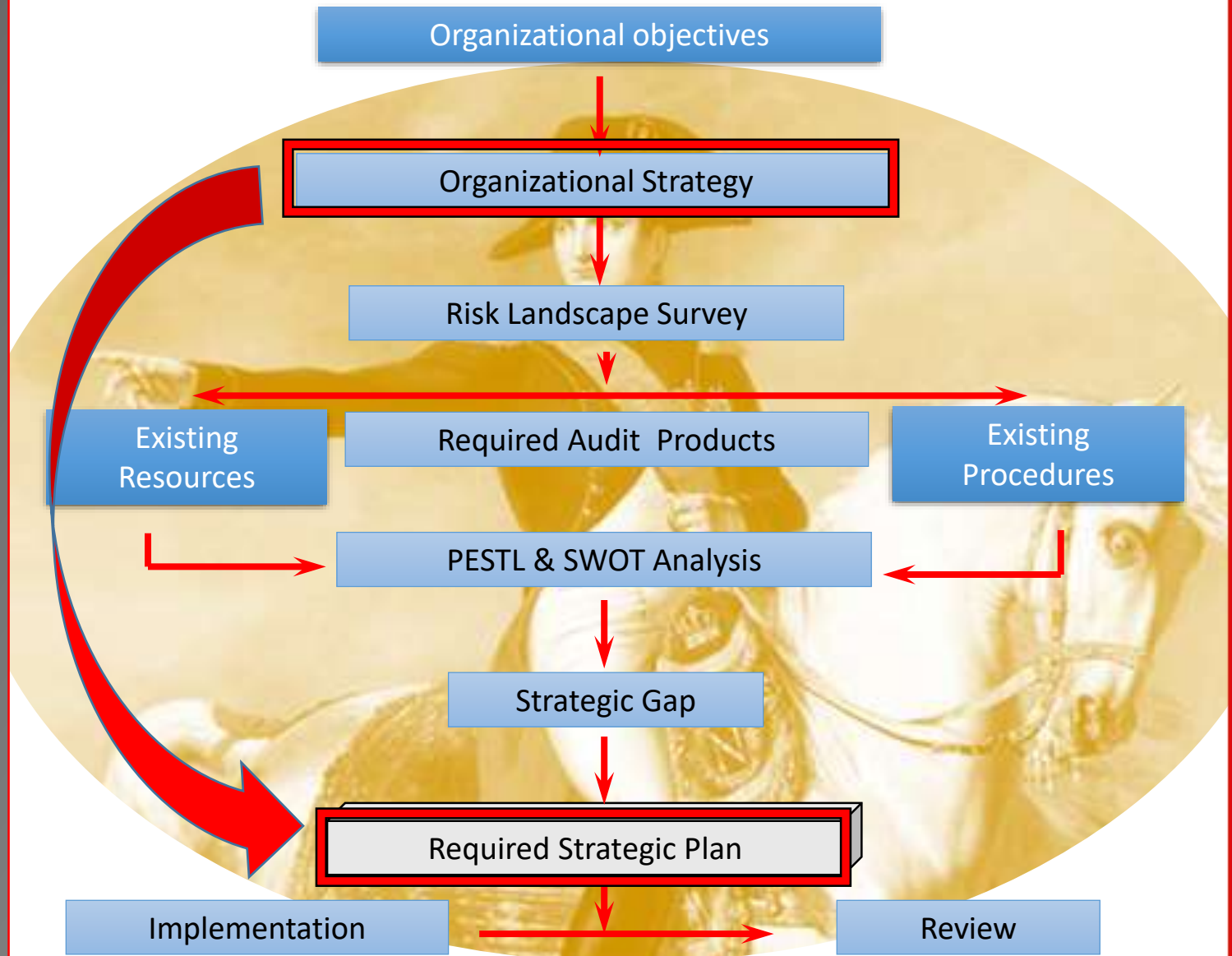
There is a temptation to become trapped inside the struggle to preserve audit independence, where contact with the outside world is avoided.

Audit plans and strategies are then based entirely on audit's perception of organizational needs on a 'we know best' basis.

IIA Standard 2010.A1

Management participation is alluded to in IIA Performance Standard 2010.A1 which states that: *The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.*

Introduction to Internal Auditing

We cannot ask management to set our plans for us but we should talk to them – but how should we carry out this task and also remain independent?

Standard 2010 A.1 says we should consult with management when establishing plans – but how can this best be done?

The risk based auditing approach to designing audit work was explored some years ago by the IIA in their 2005 professional guidance for internal auditors in terms of three main stages.

Consulting with Management

1. Discuss the understanding of risk maturity with the board and senior managers.

2. Obtain documents, where they are available, which detail the objectives of the organization. How risks are analyzed, for example by scoring their impact and likelihood.

3. Conclude on the risk maturity.

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Audit Strategy

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8.
Audit
Strategy

Audit planning is driven by what is included in the audit universe, which is a list of all possible audit areas.

IIA Practice Guide: Developing the Internal Audit Strategic Plan (2012) highlights the importance of the audit universe in driving the way the plan is resourced.

An assessment of sourcing models should be performed to determine the most cost effective structure for performing the expected services for auditable entities within the audit universe. The key variables to assess related to the sourcing model include:

➢ Required skills

➢ Specialized skills

➢ Level of centralization vs. decentralization in the organization

➢ Geographical footprint

➢ Language requirements

➢ Desired flexibility with staffing and cost structure

➢ Upcoming changes to laws and regulations

➢ Budget

➢ Desired level of talent sourcing for the organization.

Introduction to Internal Auditing

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The IIA's Audit Executive Center Global Pulse of the Profession survey (2014) contains many interesting comments.

The internal audit has a dual role in providing consulting advice and help to the business and also providing objective assurances across the organization for senior management and the board. Consulting help is given to managers on request, or as spin off from a previous audit and there will be a clear criteria to approving requests for help. Moreover, the CAE needs to talk to senior management on key risk such as IT related threats.

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Audit Strategy

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Audit
Strategy

Internal auditors may be asked to provide ongoing support to the development of an enterprise risk management process. They may also be asked to investigate problems that arise when management allow specific operational risks to materialize. Such consulting work is part of the overall audit role.

IIA PERFORMANCE STANDARD 2010.C1 2010.C1 - The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

Consultative Approach

Focus on Risk Management & Controls

Understand Barriers

Discuss Findings

Teamwork & Participation

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8.
Audit
Strategy

A really good example of how the audit assurance and consulting roles should be balanced comes from the IIA Practice Guide: Business Continuity Management (August 2014).

The final paragraph means auditors may have to roll up their sleeves and get involved where there is a crisis that affects the future welfare of the organization.

One way to develop the audit strategy is to focus on what the organization wants by looking at the annual audit report that audit will prepare for the board and audit committee. Then work back from this, and devise a strategy to meet these demands.

Internal audit's roles may involve assurance and advisory services before, during, and after a crisis. Assurance and advisory services both require expert knowledge of key BCM elements including program governance, risk management, business impact analysis, and business continuity and recovery planning (BCRP).
• Assurance engagements may be performed to verify that BCM and CM are effective.
• Advisory services may be performed to help management focus planning activities and coordinate BCM and CM with risks and controls.

During a crisis, internal auditors also may be expected and authorized to perform critical non-auditing roles to serve the needs of the organization.

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A Question

8.
Audit
Strategy

Deciding ……………………………. is the starting place for internal audit strategies. Complete the paragraph by selecting the correct words.

The correct answer is on the next page.
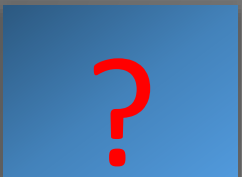
1   clear objectives

2   reporting systems

3   resource levels

?

Introduction to Internal Auditing

Deciding ………………………….. is the starting place for internal audit strategies. Complete the paragraph by selecting the correct words.

We'll deal with this idea next.

1 ✓ clear objectives

2 ✗ reporting systems

3 ✗ resource levels

?

Introduction to Internal Auditing
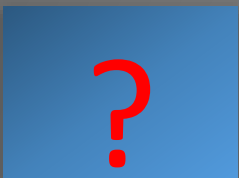
There is little point setting formal objectives for the audit function if these are not properly publicized across the organization.

Communicating your objectives may take many forms.

The next few pages go over issues concerning the way objectives may be set.

8.
Audit Strategy

Objectives embodied within an audit charter.

Repeated in the annual audit report.

Continual process as strategy does not arise as a one-off event but changes and adjusts over time, in response to the environment.

Regular meetings with management on this topic.

Some mention within major audit reports.

Formal presentations to the audit committee.

Introduction to Internal Auditing

8.
Audit
Strategy

We have described the need to communicate well, but what should you consider when deciding on your objectives?

What considerations should be had when deciding on audit objectives?

Introduction to Internal Auditing

The objectives should be understood by all.

Audit Objectives - Understood

Auditors need to understand and work to agreed objectives. For audit staff this may involve internally organized induction training and skills workshops. We may make a formal presentation to senior management that might be used to dispel myths and misunderstanding. It is essential that members of the audit committee have a clear understanding as it tells them what audit promises to do. And what to expect from the audit team.

One way forward is to prepare a Mission Statement that sets out what audit stand for example:

To enhance and protect organizational value through the delivery of professional and objective risk-based assurance & consulting services.

The types of services required should be defined. The scope of internal audit sets a clear frame within which audit may operate.

This will be designed to be widely applicable to most types of audit activities. The adopted scope of internal auditing can determine which services fall within the audit role.

In terms of assurance and consulting work there is a view that the assurance aspect (reviewing risk management) should always reign supreme. While consulting projects (promoting and supporting risk management) should be undertaken where possible and feasible.

Audit Objectives – Type of Services

- Review the corporate risk management process.
- Visit business units to assess their arrangements.
- Review risk reports that are provided to executives management.
- Consider whether there are any key risks not included on the corporate risk register.
- Take steps to support and encourage risk management awareness and the overall risk management process.

Risk based auditing is seen by most as the best way forward.

Introduction to Internal Auditing

The topic of fraud holds a special place when discussing audit objectives. Auditors understand the control cycle that dictates that fraud is caused by poor controls. This does not detract from the need to set out your role in relation to fraud detection and investigation. IIA Performance Standard 2120.A2 state that: 'The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.'

An October 2017 IIA Practice Guide deals with assessing fraud risk in assignment planning. The guidance suggests fraud risks should be brainstormed to assess their impact on the audit assignment at the planning stage.

Audit Objectives – Fraud Work

The CAE must not only ensure that the audit role in frauds against the organization is documented, but also that audit is in a position to discharge this role. It is better to place a caveat by stating that the organization should provide additional resources for large projects. Management is ultimately responsible for controlling and investigating frauds but there is one view that anti-fraud work should be part of the internal auditor's list of top priorities.

The IIA 2009 Practice Guide on Internal Auditing and Fraud says the internal auditor should consider:
➢ Auditing management controls over fraud.
➢ Auditing to detect fraud by testing high risk areas, looking for indicators of fraud.
➢ Considering fraud in every audit.
➢ Consulting work to help management identify and assess the risk of fraud.

We have already argued that any audit objective must be linked directly into the organization's own objectives (or mission).

Audit Objectives – Geared into the Organization

So long as we accept that our role is located in risk management and control issues, the final audit product may take different guises in addressing control-related matters. Risk management must be set within the culture of the organization and its success criteria. Organizations range between tightly bureaucratic entities through to loosely based project teams. The growth in non-traditional audit services may be geared to the way the corporate control environment has developed. Where audit have a strategy to help uncover data breaches, it may be possible to develop continuous data analytics tools and use these as a form of continuous audit. An alternative view is to give these tools to the cyber security team and let them take responsibility for these ongoing data sweeps.

Introduction to Internal Auditing

As some stage the objectives will support the audit universe and the way this is defined.

For example, the organization may perceive the audit universe and related risk profiles in terms of the type of activities that are carried out.

All high risk activity within the organization (and external activity that is associated with the business) should be included in the audit universe and so subject to the annual audit planning framework.

Audit Objectives – Scope of Audit Universe

➢ Business units and other associated outlets
➢ Information systems and IT security
➢ Specialist risk management teams such as CRO and health & Safety
➢ Finance and accounting systems
➢ Compliance and regulatory oversight
➢ Corporate governance policies
➢ Head office functions such as planning and strategy, marketing, project management and human resources
➢ Contracts, procurement and third party relationships
➢ Ethics programs
➢ Risk culture
➢ Fraud and non compliance.

Introduction to Internal Auditing

Audit objectives must be approved by the organization.

We'll deal with this idea of adding value later. But here we should say that internal audit is about helping the business meet its own objectives.

And the audit drive should be approved and supported by the board via their audit committee.

Audit Objectives - Approved

This in most cases will be the board and/or audit committee where a formally signed audit charter will be agreed along with any changes.

The objectives should be supported by a suitable audit performance framework that allows the audit committee to oversee the internal audit service. As such what audit has promised to do should be fully delivered.

8.
Audit
Strategy

Introduction to Internal Auditing

Now we need to implement the strategy properly.

How can we ensure that each audit is aligned to the overall audit strategy?

8. Audit Strategy

Introduction to Internal Auditing

To answer this question, let's return to the audit planning process.

Management must clarify their goals before plans can be formulated and this can be achieved by active communication.

A good audit team will engage with senior management across the organization to get to grips with their risk profiles and priorities. There is no way this task can be carried out from the audit offices.

Introduction to Internal Auditing

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8.
Audit
Strategy

Resource prioritized high risk areas. Suitable resources for these areas must be provided.

The audit strategic plan seeks to reconcile the workload with existing resources. This plan should take on board the various constraints and opportunities that are influential now and in the future.

The strategic plan takes us from where we are to where we wish to be over a defined time frame, having due regard to the audit budget.

The audits may comprise a range of risk based services that suit the organization looking at for example, compliance, operational risk, overseas sites, fraud risk management, cyber security, financial audits, risk registers, follow up review and ad-hoc consultancy work. Or simply use broad categories such as Financial, Strategic, Operational and Compliance based.

Introduction to Internal Auditing

Audit will normally publish an annual audit plan formally approved by the audit committee. This lists planned audits for the year and includes a reconciliation of audit resources to required audit cover.

The annual plan is important as it represents the justification for resourcing the internal audit service.

An integrated approach may be applied to take on board other assurance providers such as IT Security, legal, risk management and various compliance teams. And the reliability of these assurance services. One key area is audit involvement in large projects where it is important not to duplicate the input from other review teams.

8.
Audit
Strategy

Introduction to Internal Auditing

The annual audit plan will set out which parts of the listed systems will be subject to audit cover over the next 12 months without necessarily assigning specific auditors to each audit.

8. Audit Strategy

Introduction to Internal Auditing

The quarterly audit plan provides an opportunity to take the planning process to greater detail where the various projects may be scheduled over a 13-week period.

Monthly work plans may also be used to control audit resources where contingencies, say 10% can be built into the plan can be used for overruns and unplanned special requests from management. Extra resources can be brought in where additional work is required and it is not possible to take out planned audit assignments. As risks change, so must audit plans.

There is some more information on quarterly planning on the next page.

The quarterly period has much more meaning to both managers and auditors as a time frame in view of the fast pace of business life. Quarterly plans are no longer short-term matters as it becomes increasingly more difficult to predict what factors may influence the organization as new developments arise. The annual plan sets a background to the quarterly plan. In today's fast moving word, three months is often the most appropriate period within which to set priorities and assign work as existing risks change and new ones emerge.

Quarterly Audit Plan

A quarterly plan can be derived from the annual plan. Most organizations experience constant change making the quarter a suitable time-slot for supportive work programmes. The quarterly audit plan provides an opportunity to take the planning process to greater detail where the various projects may be scheduled over a 13-week period. The quarterly period has much more meaning to both managers and auditors as a time frame in view of the fast pace of business life. Quarterly plans are no longer short-term matters as it becomes increasingly more difficult to predict what factors may influence the organization as new developments arise. The annual plan sets a background to the quarterly plan. Three months is often an appropriate period within which to set priorities and assign work in most industries. Within this planning framework it is possible to:

1. Build in the planned absences of individual auditors so that a good idea of the available resources for the period in question can be obtained. The quarterly period is ideal for this, in that we will have some knowledge of staff movements and training, annual leave, and sick leave.

2. Plan audit cover weekly as the basis of a work program for each individual auditor.

3. Enter projected start and completion dates for each audit that can be in detail (e.g. the exact date) or more realistically the week within which the planned start and finish will fall. It is possible to set this level of detail with a manageable time frame.

4. Allocate projects to auditors. This sets the right resources to the right projects in line with relevant factors. It includes skills, experience, special interests, and career development. Some audit teams set a standard of say 80% of each auditor's time goes to audit assurance work.

5. Reprioritize projects on the annual plan. As quarterly plans are prepared, audits are reassigned on the annual plan as detailed changes are made.

The link between the annual and quarterly planning mechanisms must be maintained as each is adjusted in line with changing risks. Audit management can make a one-line statement of expectations from an audit from work done so far in the planning process.

Assurance mapping can also be used to drive the audit strategy and plans.

When you know how assurances are provided across the organization, you can consider the best way to review these arrangements and plan audit resources as the third and final line of defence.

There is a short note on this on the next page.

Introduction to Internal Auditing

Audit Assurance Mapping

If the primary role of internal audit is to provide independent assurances on the risk management, control and governance process, then these assurances need to fit into the assurance map. These other assurance providers include:

* Line management and employees.   * Senior management.   * External auditors.
* Compliance teams.   * Quality assurance.   * Risk management.
* Environmental auditors.   * Workplace health and safety auditors.   * Government performance auditors.
* Financial reporting review teams.   * Subcommittees of the board.
* External assurance providers, including surveys and specialist reviews such as health and safety.

Most agree that the CAE will use the risk management process to drive internal audit plans. In addition, the internal auditor coordinates with other assurance providers and considers planned reliance on their work. In this way the CAE is able to identify different kinds of activities to include in the internal audit activity's plan, including:

•   Risk based audit reviews/assurance activities.
•   Inquiry activities such as internal investigations.
•   Consulting activities and general advice and support to management.

Many organizations have developed risk registers that document risks below the strategic level, providing documentation of significant risks across the business along with related inherent and residual risk ratings, key controls, and mitigating factors. An alignment exercise can then be undertaken to identify more direct links between these risk 'categories' described in the risk registers and the agreed audit universe.

Stakeholders need to understand the nature of the audit opinion - what it covers, the criteria used to express the opinion and the time period in question. Audit work can also operate as a strategic reviewer that looks at aspects of an entire risk management or it may consist of the aggregate of smaller audits that together paint a picture of the state of risk management. The aggregate method has to be used with care as it depends on the context, the overall polices used by the organization, and the work done to support the opinion including reliance on others.

The internal audit strategy tells the organization what it will get from its audit team. Good management knows the value from their audit shop and have very demanding expectations. Where the in-house team cannot meet these expectations without help from outsiders, the outsourcing question arises.

Some internal audit shops are turning towards a partnering arrangement, where they use parts of the external firm expertise to fill gaps between strategic requirements and current capacity. This 'co-sourcing' model has various positives as new skills and insights become available through the external partner.

There can also be a degree of synergy and learning as the in-house staff work alongside the new partner's assigned auditors. One major benefit is that the external player can be asked to provide additional resources as and when required and when the project is completed, the extra cost may be simply curtailed.

IIA PRACTICE GUIDE: Reliance by Internal Audit on Other Assurance Providers (2011)
Co-sourcing - Many CAEs must confront the possibility of outsourcing some of their work to ensure everything with which they are tasked is completed in a timely and competent manner. Co sourcing presents a CAE with a broad range of outside capabilities to supplement inhouse talent.

Fully In-House	Co-Sourcing	Outsourcing
• Audit Team • Extra Temporary Staff When Required	• Fixed Extras Projects • Annual Call-Off Contract	• Small, Responsive Audit Team • Planned Work Outsourced

Introduction to Internal Auditing

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Conclusion

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8.
Audit
Strategy

Introduction to Internal Auditing

Before we go to the next part, let me give you a concluding remark.

Like any important function, clear objectives and a strategy that is driven by the corporate mission should underpin the audit service.

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Your Tutorial

9. AUDIT FIELDWORK

1. History of IA
2. Auditing Standards
3. Scope of Audit Work
4. Basic Audit Concepts
5. Quality Assurance
6. The Audit Image
7. Governance & Risk Management
8. The Audit Strategy & Planning
9. Audit Fieldwork
10. Adding Value

Introduction to Internal Auditing

Oganizational objectives

Assess risk priorities

Resource prioritized areas

Audit strategic plan

Annual audit plan

Quarterly audit plan

Outline objectives statement

Preliminary survey

Audit Charter

Management's Needs

Resource Implications

Audit Budget

Annual Audit Report

Quarterly Audit Report

THE AUDIT

Assignment plan

THE AUDIT REPORT

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A Question

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9.
Audit
Fieldwork

Introduction to Internal Auditing

This may be seen as a disorder, disorganization, lack of patterning or randomness of organization of systems.

Would you chose 1, 2 or 3 as the most appropriate response? The correct answer is on the next page.

1 entropy

2 randomness

3 collapse

?

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An Answer

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9.
Audit
Fieldwork

Systems break down over time and fail to deal with risk properly.

And they may not respond quickly enough to new and changing risks. Your audit work will drive out these deficiencies and help management get their business arrangements and controls working properly.

This simple idea is the main driver for internal auditing.

?

1 ✔ entropy

2 ✘ randomness

3 ✘ collapse

Introduction to Internal Auditing

The final piece of the puzzle

Your Tutorial has so far set the context for professional risk based audit fieldwork - that part is about introducing you to doing actual audits.

We will be using a simple case study of an audit assignment.

Your case study will include a few tutorial notes interspersed within examples to draw out some of the more practical points.

Introduction to Internal Auditing

Whenever you see this white on black text, you are looking at your case study.

Which is a worked example of an audit of the anti-fraud policy.

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Audit engagement:

The Corporate Anti-Fraud Policy

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A Question

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9.
Audit
Fieldwork

Introduction to Internal Auditing

Risk-based systems auditing involves establishing the system objectives, finding out what risks should be addressed and then developing appropriate solutions to mitigate ……………………………………

What the missing words?

Would you chose 1, 2 or 3 as the most appropriate response? The correct answer is on the next page.

1   unacceptable controls.

2   unacceptable levels of risk.

3   the risk of non compliance.

?

Risk-based systems auditing involves establishing the system objectives, finding out what risks should be addressed and then developing appropriate solutions to mitigate ....

We will be exploring this point in some detail.

1 ✗ unacceptable controls.

2 ✓ unacceptable levels of risk.

3 ✗ the risk of non compliance.

?

Introduction to Internal Auditing
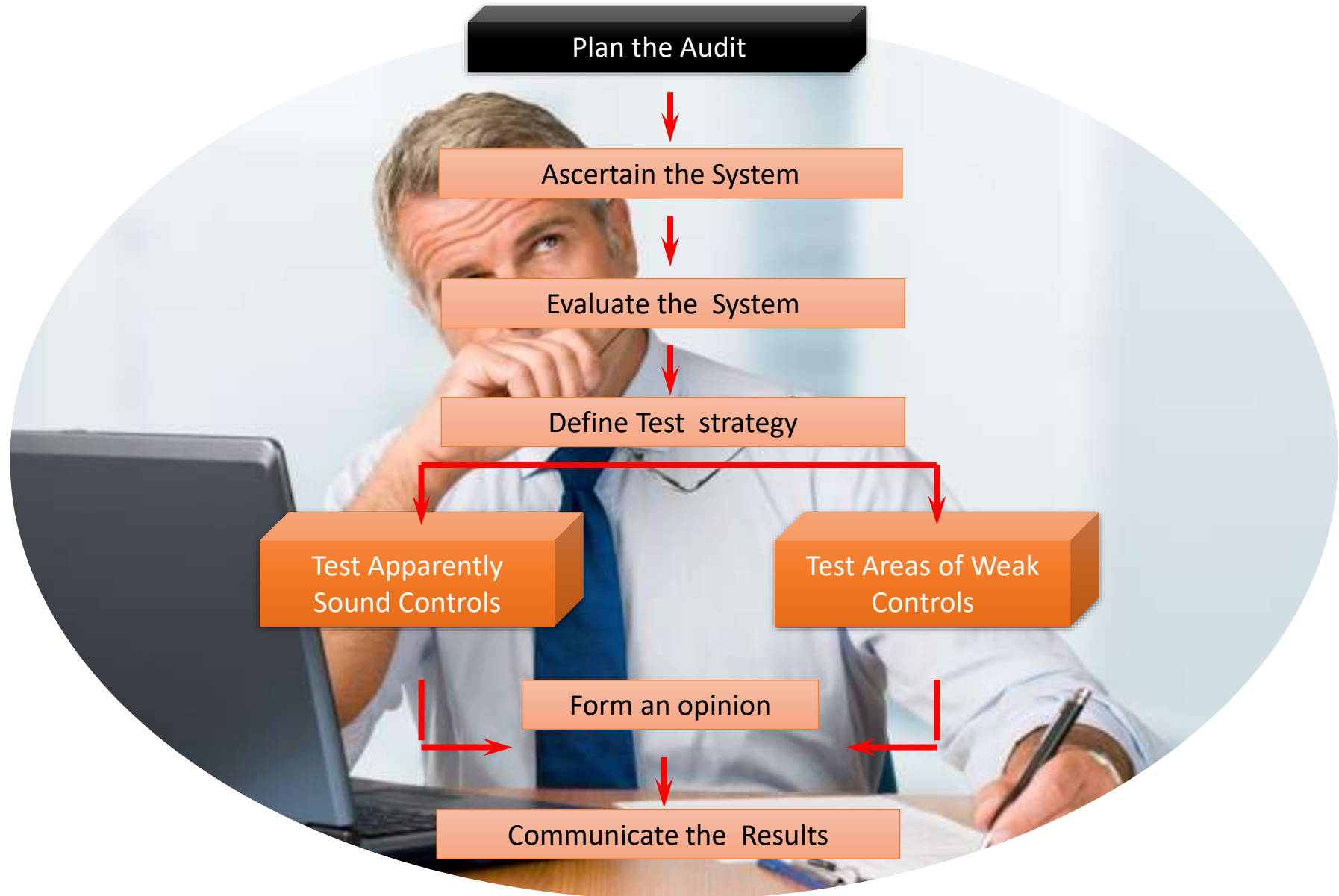
SECTION ONE PLANNING

We start with Audit Assignment Planning. The annual audit plan lists those high risk areas that are targeted for audit cover during the next 12 months. The quarterly audit plan provides more detail by setting out those audits that will be performed by specified auditors in the following three months. Before the full audit is started and resources committed, an assignment plan will direct and control these resources.

IIA Performance Standard 2200 deals with engagement planning and requires that:

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organization's strategies, objectives, and risks relevant to the engagement.

Introduction to Internal Auditing
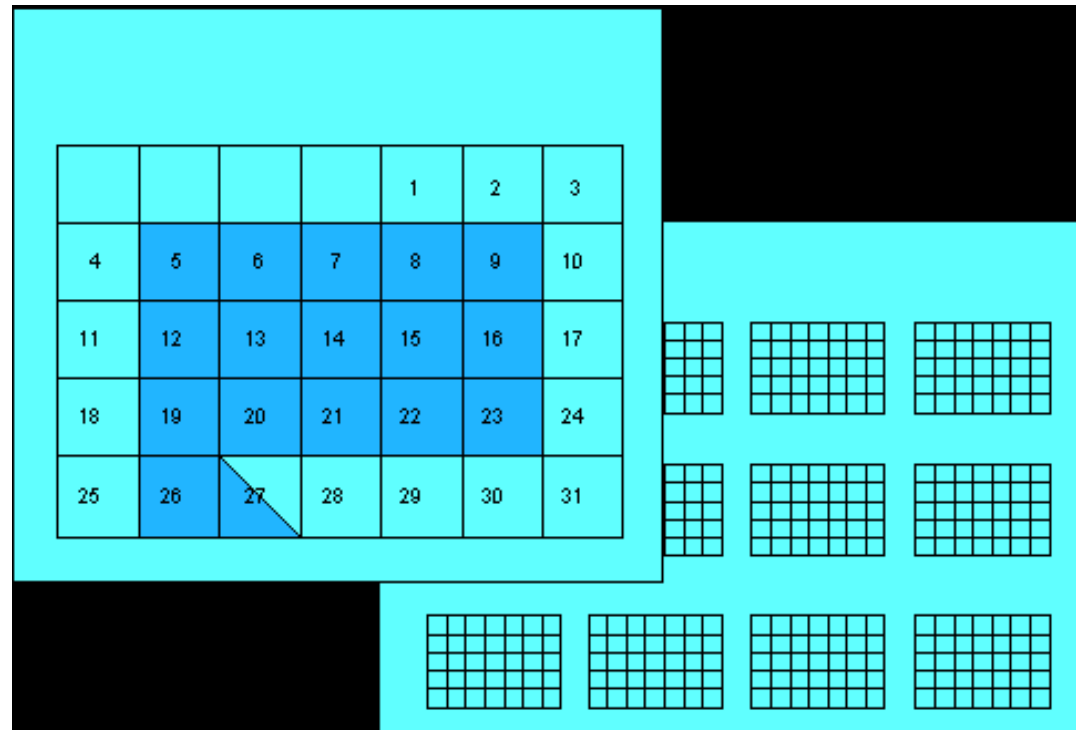
Have a go at this exercise.

What do you need to do when you get an audit from the quarterly audit plan, before you can prepare an assignment plan?

What sort of information do you need before you can formulate an assignment plan?

9.
Audit
Fieldwork

The Preliminary Survey

Introduction to Internal Auditing

The exercise is answered by what we call the preliminary survey, and this is dealt with next.

The focus here is on risk based assurance audits.

We do not cover interviewing or investigations in this Tutorial which are dealt with in the 'Conducting Internal Investigations' eGuide.

The preliminary survey accumulates relevant information regarding the operation so that a defined direction for the ensuing audit (if it goes ahead) may be agreed.

The audit files will be the first port of call and any previous audit cover will be considered. All assignment audit files should contain a document entitled 'outstanding matters' that were not addressed.

After some background work, set up a meeting with the client. This opening meeting will involve discussing the terms of reference and any management concerns. There is a short note on the next page dealing with Preliminary Surveys.

➢ Key business objectives.

➢ Key risks, risk assessment undertaken and current measures to manage risk including key controls.

➢ Audit client, key managers and teams.

➢ Key managerial processes: what frameworks impact the business area coving strategy, operations, structure, human resource management, key information systems, supervision and procedures?

Some call this 'Scoping the Audit'

Introduction to Internal Auditing

Preliminary survey

Background research requires thought on key areas to be covered in an audit. This ranges from a quick look at previous files and a conversation with an operational manager to formal processes of many days of background work involving a full assessment of local business risks. Review any recent work carried out by other review agencies, although watch out for bias where the work was commissioned for a particular reason. Reports contain natural bias set by the terms of reference. For example, a staffing review commissioned by an employee union is more likely to recommend pay rises. The preliminary survey involves assessing local business risk factors that affect audit objectives. No audit can cover all the relevant areas within a specific operation and the assignment plan states what will be done and what is not covered. It is the process of assessing local risk that allows the auditor to key into the target elements of the operational area. This is done at preliminary survey before the audit objectives and scope of the review can be finalized and agreed.

The auditor must isolate the system for review and distinguish it from parent systems, subsystems, parallel systems and link systems. And more than anything, understand the risk profile. The survey is perhaps the most difficult part of the audit process since once the terms of reference have been set and a program of work agreed, the remainder can be fairly straightforward. It means that the audit manager has a full knowledge of the audit and can supervise and review the work as it progresses. The preliminary survey should result in a program of work that has been identified as a result of the background work.

This may be in the form of a detailed audit program or simply a list of key tasks depending on the type of audit, the approach to work and the policies of the audit unit. The preliminary survey report (PSR) goes to the audit manager, along with a brief description of the system used to prepare the assignment plan. The PSR of one or two pages will cover the following:
1. An outline of the system under review including systems objectives and boundaries.
2. The work undertaken in the preliminary survey.
3. An initial opinion on the risk areas based on the key control objectives covering compliance, information systems, safeguarding assets and value for money.
4. Recommendations for the proposed assignment in terms of the nature and extent of audit cover now required.
5. An appendix with outline systems notes and a draft audit guide/program for the full audit.

Anti Fraud Policy Audit : Your Case Study

The Preliminary Survey

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9.
Audit
Fieldwork

The annual audit plan includes an audit of the corporate fraud policy. This was requested by the audit committee as an important feature of the internal control framework adopted by the board. The audit manager assigned the work to a lead auditor who carried out the following tasks.

The audit manager assigned the work to a lead auditor who carried out the following tasks:

• **Contacted the Financial Controller (there is no compliance officer in post), who was the process owner for the fraud policy and arranged a meeting for the following week. This person would have known about the pending audit from the quarterly audit plan which is circulated to senior management.**

• **Lead auditor and audit manager met with the chair of the audit committee to discuss the audit in question. The chair had no particular concerns over and above the need to ensure there was an effective fraud policy in place.**

• **Reviewed the audit files to establish what previous work had touched on the fraud policy and also compiled a list of past fraud detection work and fraud investigations.**

• **Searched the internet for any material from respected web sites such as the IIA and ACFE to secure a background on anti-fraud policies and programs.**

• **Met with the company lawyer to discuss any issues that should be taken on board when reviewing the current fraud policy.**

• **Met with the Financial Controller and discussed the current head office arrangements for managing the risk of fraud and developed an outline terms of reference for the audit that made clear the audit scope and direction.**

IIA Performance Standard 2201 provides a list of matters to be considered when planning the audit.

Consulting engagements are more straightforward and are covered by Performance Standard 2201.C1, which requires that Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations.

Performance Standard 2201: Assignment Planning Standards
➢ The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
➢ The significant risks to the activity's objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
➢ The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model.
➢ The opportunities for making significant improvements to the activity's governance, risk management, and control processes.

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The Terms of Reference

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9.
Audit
Fieldwork

As a result of the above, the lead auditor prepared a preliminary survey audit report. This report was reviewed by the audit manager and signed-off by the CAE, and contained work to be carried out, the draft terms of reference and a recommendation to start the audit as soon as practicable. Because it was such a high profile audit, It was presented to the audit committee for comment.

The agreed terms of reference is reproduced below:
1. To review the existing arrangements for ensuring that:
a. staff understand the corporate anti-fraud policy and their roles and responsibilities in respect of fraud prevention, detection and response.
b. There are suitable measures for reporting suspicions of fraud and irregularity.
c. There is a capacity to investigate fraud and irregularity to professional standards.

2. To issue a formal audit report to the audit committee, CFO and Financial Controller in respect of findings and recommendations arising from the audit.

3. The audit will not involve any special tests that seek to detect fraud and irregularity, but will focus on the controls in place that ensure the corporate fraud policy addresses the risk of fraud within the organization. To this end the policy and other relevant documentation will be examined and appropriate staff will be interviewed.

4. The audit will be conducted by Fred Fredicks and start on xx 20xx.

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Having set the form and direction of the audit and agreed that it should go ahead the next stage was to plan the work involved.

This involved taking the set terms of reference and carrying out the following tasks.

This involved taking the set terms of reference and carrying out the following tasks:

1. Audit job coded and set up on the time management system as a live audit engagement, coded as Assurance Audit; Special Requests From Audit Committee via the annual audit planning process.

2. Lead auditor officially assigned to the job.

3. Audit team of two junior audit staff also assigned to the job.

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9.
Audit
Fieldwork

Have a go at this exercise.

What considerations would you have when assigning budget audit hours to a planned assignment?

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Assignment Planning

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9.
Audit
Fieldwork

We must define an audit budget in terms of time allowed. Time is the key factor on any audit. Setting a time budget acts as a principal control over the assignment and is an important concern of audit management.

A viable audit is achieved within budget to professional audit standards and as a full discharge of its objectives.

Assigning Time to Audits

Budgeted hours must be realistic and achievable. There are two different views. One seeks to perform the audit terms of reference to the full no matter how long this takes, even if budgeted hours are extended. This normally involves extensive testing and an inability to defer parts of the audit to a later stage.

The other view is that audit management sets a defined number of hours according to the level of risk attached. When this budget expires the auditor must transfer to another work area, so recognizing the risks of not dealing with the next planned audit. Extensions are not encouraged as the auditor has to perform as much work as possible during the budget hours and then move on to the next job.

One solution is to disallow budget extensions unless there is good reason - to avoid the psychological dilemma of 'auditor attachment'

This occurs where the auditor becomes so engrossed in an operation that they see themselves as an expert who has a duty to solve all problems after mastering the system.

Assigning Time to Audits

A viable audit is achieved within budget to professional audit standards and as a full discharge of its objectives.

Budgeted hours must be realistic and achievable.

An alternative approach is more basic and simply states.

For example:

LARGE AUDIT: over 3 WEEKS

MEDIUM-SIZED AUDIT: 2 - 3 WEEKS

SMALL AUDIT: 2 – 5 DAYS

AD HOC ADVICE: under 1 DAY

The Lead auditor and audit manager completed the plan and the audit team briefed:

1. The lead auditor will manage the job in the field and update the client contact (the Financial Controller).

2. The audit manager will visit the location to check progress and discuss any concerns.

3. The two audit staff will spend a week each on assigned tasks.

4. The audit administration officer will organize hotel and travel.

5. The work will focus on the fraud policy and whether disseminated across the organization.

Audit; Corporate Anti-Fraud Policy   Code; *A (Assurance)*

Type; 3 (AC Request)   Prelim Survey Report Ref; 223

1. To review the existing arrangements for ensuring that:

   a)   Staff understand the corporate anti-fraud policy and their roles and responsibilities in respect of fraud prevention, detection and response.

   b)   There are suitable measures for reporting suspicions of fraud and irregularity.

   c)   There is a capacity to investigate fraud and irregularity to professional standards.
         To issue a formal audit report to the audit committee, CFO and Financial Controller in respect of findings and recommendations arising from the audit.

2. The audit will not involve any special tests that seek to detect fraud and irregularity, but will focus on the controls in place that ensure the corporate fraud policy addresses the risk of fraud within the organization. To this end the policy and other relevant documentation will be examined and appropriate staff interviewed.

3. The audit will be conducted by Fred Fredicks and start on xx 200x

Planned Dates:	Budget Days:	
Start; 1 June 20xx	Audit manager; AH 5 days	5
Field work complete; 15 June 20xx	Lead auditor; FF 25 days	25
Draft report released; 20 June 20xx	Audit Staff; TR 5 days RS 5days	10
		40
Steven Obley	*Paula Derish*	
Signed; Audit Manager	Signed; CAE	

9.
Audit
Fieldwork

A further meeting was held between the financial controller and the lead auditor to discuss system objectives. It was agreed that the fraud policy was designed to do the following:

It was agreed that the fraud policy was designed:

1. To encourage an awareness and understanding of the risk of fraud and define roles and responsibilities across the organization for fraud prevention, detection and response.

2. To ensure that all concerns and suspicions are brought to the attention of the appropriate party in a timely manner.

3. To make clear the firm line taken by the organization in respect of bringing criminal charges and taking disciplinary action against anyone involved in, or culpable in fraud or irregularity.

Introduction to Internal Auditing

It was also agreed that the audit should be guided by the use of three control objectives that were defined as follows:

The three control objectives that were defined as:

1. To ensure that all employees understand corporate standards on fraud risk management.

2. To ensure that all suspicions of fraud and irregularity are reported and properly investigated.

3. To ensure that appropriate action is taken after an investigation is completed.

9.
Audit
Fieldwork

Introduction to Internal Auditing

SECTION TWO
ASCERTAINING

We now arrive at Ascertaining the System.

Plan the Audit

Ascertain the System

Evaluate the System

Define Test strategy

Test Apparently Sound Controls

Test Areas of Weak Controls

Form an opinion

Communicate the Results

Introduction to Internal Auditing

9.
Audit
Fieldwork

Introduction to Internal Auditing

After the assignment plan has been prepared the next stage is to capture the system under review in sufficient detail. Before the auditor can 'capture' the system, information must be secured through fact-finding.

The auditor should interview the line manager and operatives to elicit a clear picture of the process. Line managers will have an overview of what goes on in their areas and this is the starting place for the full audit.

Risk based systems auditing relies on **ascertaining** the whole system of risk management and internal control, which ensures operational objectives will be achieved.

This task can only be performed where the systems that are being considered are properly understood, which in turn relies on the auditor's ability to document the system efficiently. There are several alternative methods, each with its own advantages.

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There are several options for ascertaining the system under review.

-
-

The main options that the auditor has for documenting the system are:

1.   Narrative notes.

2.   Block diagrams.

3.   Flowcharts.

4.   Internal control questionnaire (ICQ).

Subsystem

- etc
- etc

System 01

- etc
- etc

- etc
- etc

Subsystem

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Ascertaining the System (1)

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9.
Audit
Fieldwork

Let's return to the case study and have a look at ascertainment.

The lead auditor established the following:

1. The fraud policy - a copy of the latest version was obtained and examined. It was found to cover:
- **Definition of fraud.**
- **Roles and responsibilities.**
- **Links to code of ethics.**
- **Links to staff discipline.**
- **Fraud detection and red flags.**
- **Fraud prevention.**
- **Fraud detection.**
- **Where to go to for advice.**
- **Whistleblowing procedure.**
- **Fraud response plan; what to do if presented with an allegation.**

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The Fraud Response Plan was examined.

2. Fraud Response Plan - this was found to contain details of:

- **Who receives reports of any suspicions of fraud or irregularity.**

- **How fraud should be investigated (e.g. Special team, designated staff).**

- **How to secure evidence in a legally admissible form.**

- **When and how to contact Police.**

- **How to initiate recovery/ restitution action.**

- **Who else to contact for advice.**

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Diagrammatic Representation

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9.
Audit
Fieldwork

The formulation of the policy and updating procedure was described by the financial controller and documented by the auditor as a simple diagram.

financial controller - sponsor

↓

external consultant

board approval

directors' input

Corporate Fraud Policy

Legal advice

HR section review

issued to new staff

updated every two years

Anti Fraud Policy Audit : Your Case Study

Another Diagrammatic Representation

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9.
Audit
Fieldwork

The auditor met with most of the directors to discuss their input into the two-yearly update of the fraud policy, and the inclusion of the latest fraud policy in the staff handbook issued to all new staff. As part of a walk-through test the auditor was shown the last update file by the Financial Controller and viewed email comments received from various directors.

A diagram of the way allegations are dealt with, was prepared by the auditor.

whistle blowers hotline

management suspicions

audits & other sources

report to attorney & financial controller

initial review → no further action

appoint forensic investigator

suspend employee

do not suspend

formal investigation

criminal prosecution ↔ employee disciplinary

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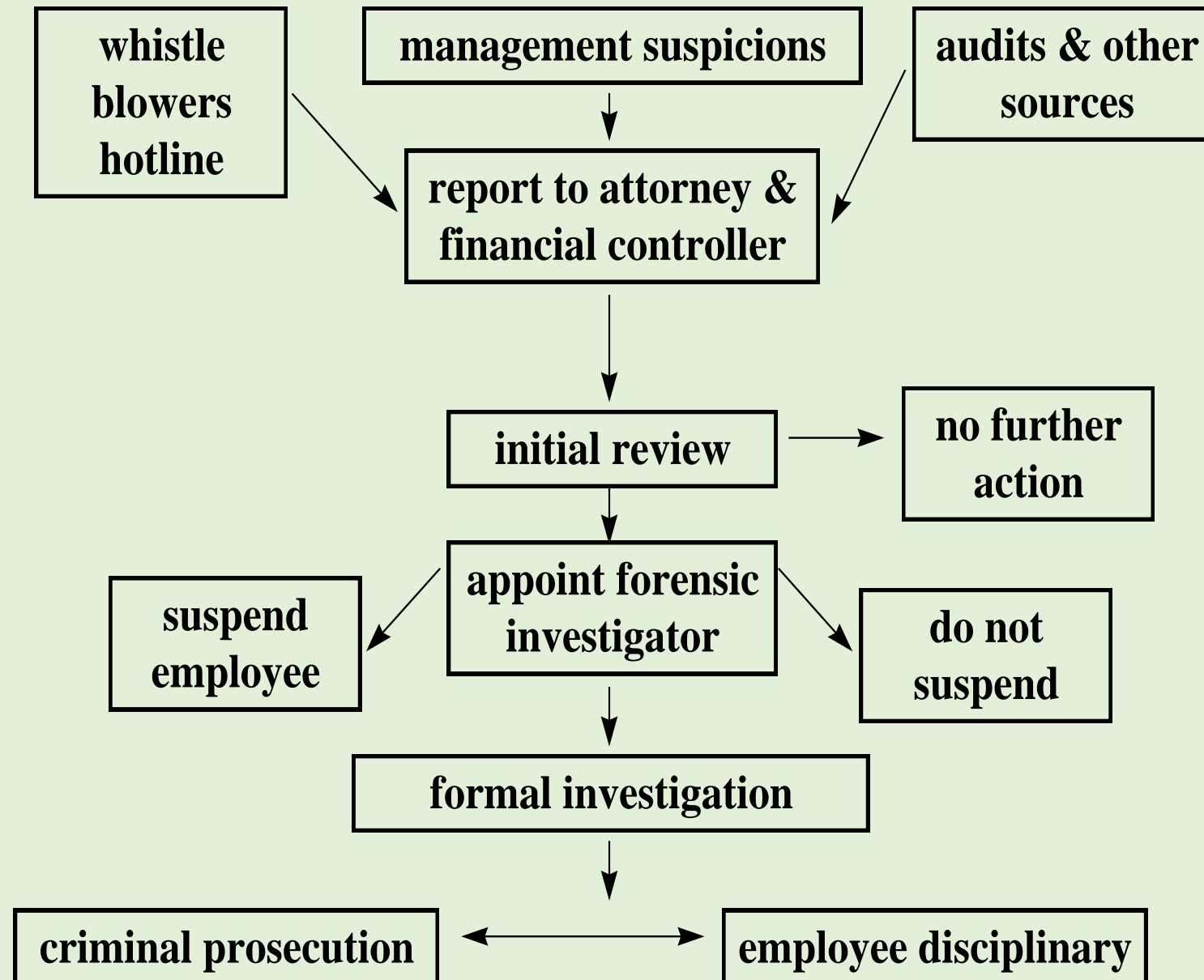
**SECTION THREE
EVALUATION**

We now need to get into the evaluation stage.

Plan the Audit

↓

Ascertain the System

↓

Evaluate the System

↓

Define Test strategy

Test Apparently Sound Controls

Test Areas of Weak Controls

Form an opinion

Communicate the Results

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A Question

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9.
Audit
Fieldwork

Have a go at this exercise.

Describe the role of evaluation within an audit assignment. Why is it so important to the audit task?

The preliminary survey establishes which system is being audited. The statement on scope of audit work in the assignment plan will document what is being reviewed and it is this system that will be subject to evaluation.

We then have to turn to the model of the system that is being evaluated. Successful evaluation requires that the right techniques are applied in the right way, based on a good understanding of the system.

Evaluation

Evaluation may be seen as an important stage in any audit review since this provides an opportunity for auditors to apply professional creativity to the fullest. The audit opinion and recommendations should flow from the systems weaknesses identified during the systems evaluation. Audit testing routines are carried out to confirm the original evaluation in terms of the application of controls and the effects of control weaknesses. If the evaluation is flawed then all the remaining audit work will suffer and audit recommendations will provide substandard solutions to risk exposures.

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Anti Fraud Policy Audit

Evaluating the System

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9.
Audit
Fieldwork

The control evaluation:
- Key risks that have been rated high in terms of impact and likelihood, before controls are applied - Key risks & Ratings.
- These risks drive the evaluation in terms of controls that are in place to mitigate the risks - Key Controls column.
- The auditor's initial evaluation of these control measures - Initial Evaluation column.
- Which tests should be applied to assess the reliability of these controls and the impact of non compliance and general weaknesses through poor controls.

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS

The testing column represents the test strategy. Test schedules will be prepared and performed and the results summarized and entered back onto the internal control evaluation schedule. After which, this Schedule will then contain the audit opinion and recommendations - that will then feed into the management action plan.

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SECTION FOUR TESTING

Testing comes next. We call this TESTING rather than 'gathering evidence' because it means our work is directed towards testing a supposition such as: Is this transaction properly approved? Are these policies effective? Were these goods delivered to the right place?

Plan the Audit

↓

Ascertain the System

↓

Evaluate the System

↓

Define Test strategy

Test Apparently Sound Controls

Test Areas of Weak Controls

Form an opinion

Communicate the Results

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9.
Audit
Fieldwork

Testing is the act of securing suitable evidence to support an audit. It confirms the auditor's initial opinion on the state of internal controls.

It is a step in risk and control evaluation, although many auditors test for the sole purpose of highlighting errors or non-adherence with procedures. It depends on the audit objective.

Performance Standard 2240 requires audit procedures to be in place to ensure the required evidence can be gathered.

Testing – Standard 2310

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

➢ *Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor.*

➢ *Reliable information is the best attainable information through the use of appropriate engagement techniques.*

➢ *Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement.*

➢ *Useful information helps the organization meet its goals.*

Introduction to Internal Auditing

The auditor should gather sufficient evidence to support audit findings. This means the information should be factual, adequate and convincing so that a prudent, informed person would reach the same conclusions.

Competent information is reliable and the best attainable using appropriate techniques.

Relevant information supports observations and is consistent with the objectives.

Useful information helps the organization meets its goals.

- *Define the test objective*
- *Define the testing strategy*
- *Formulate an audit program*
- *Perform the test*
- *Schedule the evidence*
- *Interpret the results*
- *Determine the impact on audit objectives*
- *Determine the next step*
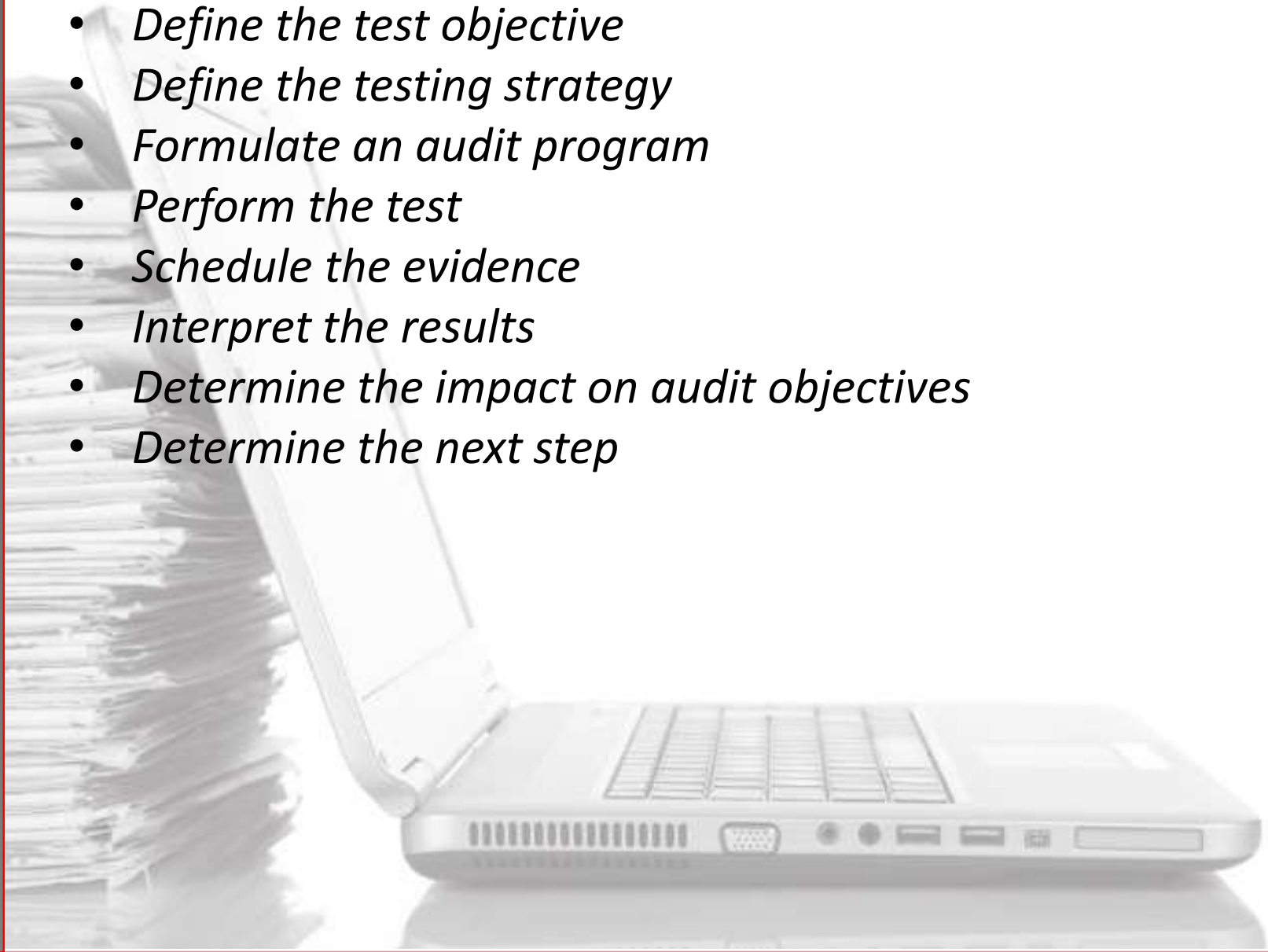
Let's have a look at the two main types of test – COMPLIANCE and SUBSTANTIVE tests.

We look first for compliance with key controls then review results. Substantive tests are then directed towards all known weak areas including those where key controls are not being observed or revealed through compliance testing.

Introduction to Internal Auditing

Aims

Risks

Controls

Strong

Weak

Compliance tests

No

complied with ? → Extended substantive tests

Yes

Limited substantive tests

Audit opinion & recs

Report & follow-up

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Types of Testing

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Audit
Fieldwork

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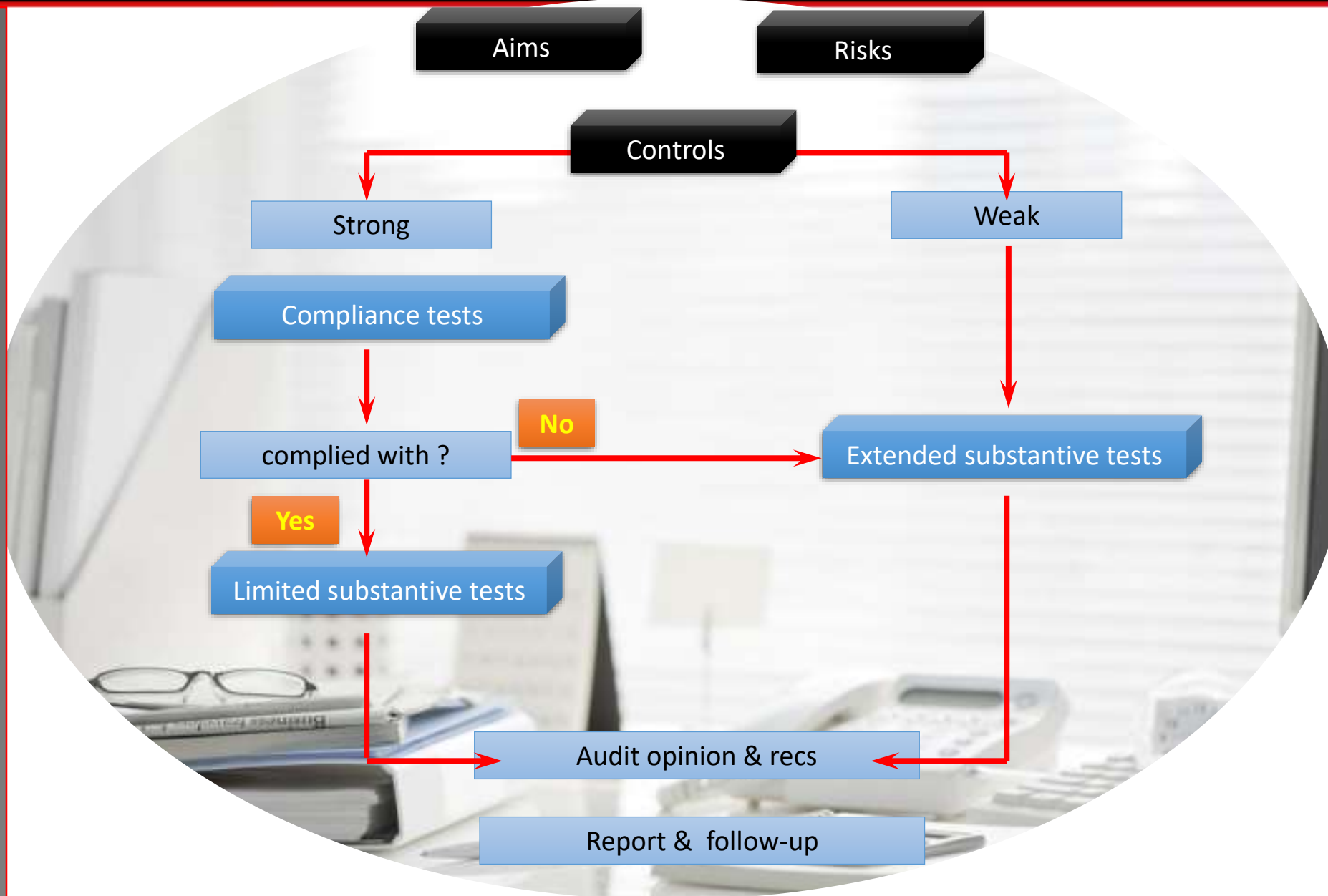
Types of testing:

Walkthrough tests seek to determine how the system's objectives are achieved.

Compliance tests seek to determine whether control mechanisms are being applied.

Substantive tests seek to determine whether control objectives are being achieved.

Dual purpose tests check for both compliance and actual error, abuse or inefficiency. When considering the audit objectives and the type of evidence that is needed to complete the audit, it is a good idea to remember the different types of tests to secure audit evidence. A note follows on the next page.

SYSTEM OBJECTIVE	CONTROL OBJECTIVE	CONTROL MECHANISM	COMP TEST	SUB TEST	DUAL PURPOSE	WALK THROUGH

2

3

4   **4**

1
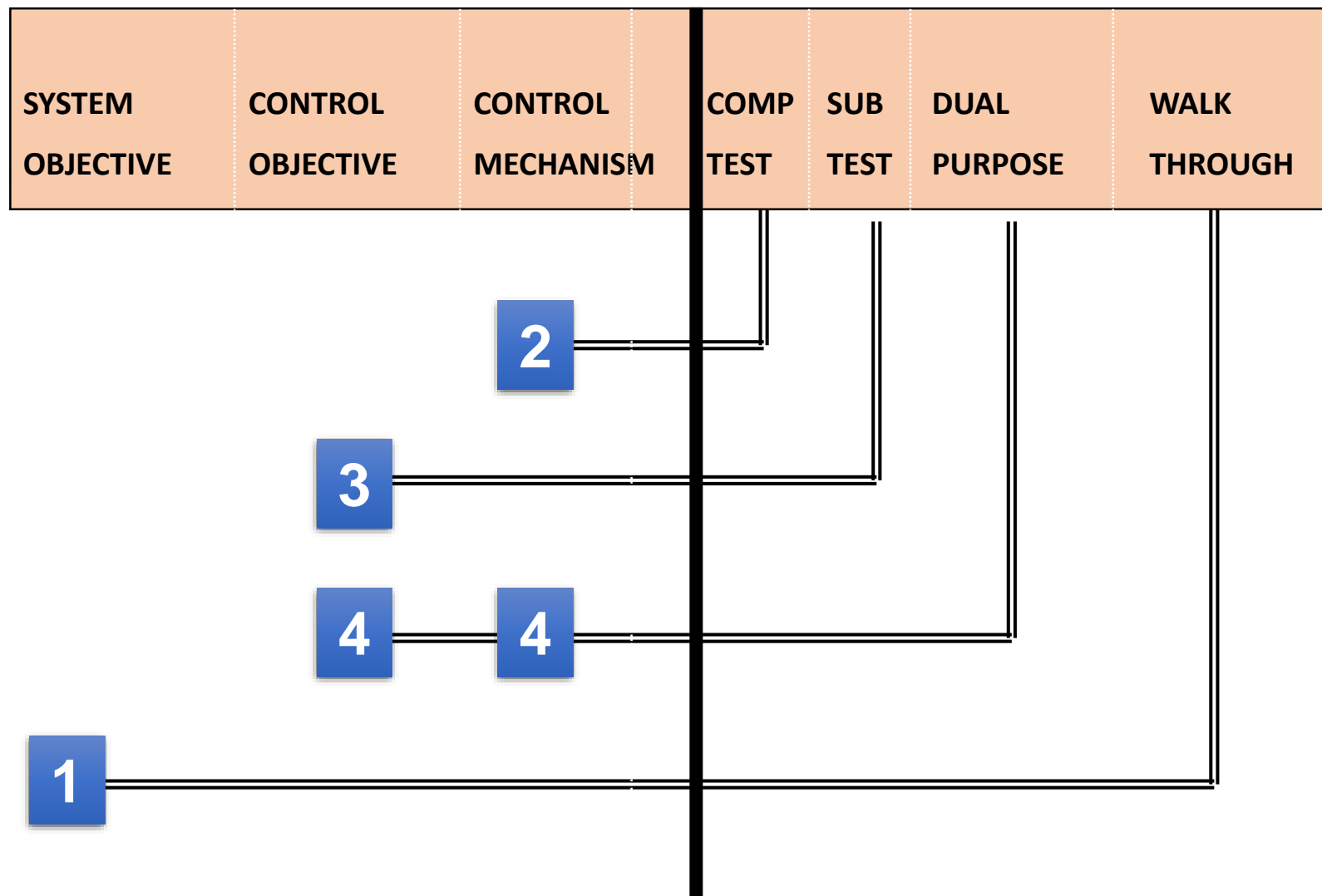
Types of Testing

1). Walkthrough

This involves taking a small sample of items that are traced through the system to ensure that the auditor understands the system. It occurs during the ascertainment stage of the audit and may lead into further tests later. The client may be asked to refer to named documents representative of the transaction cycle that will be cross-referenced to the interview record to assist this process of 'capturing' the system.

2). Compliance

This determines whether key controls are adhered to. It uncovers non-compliance or unclear procedures. If key controls are not being applied, and this is not compensated for by the system, they become reclassified as weak controls. Note that internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals to determine whether operations are being performed as intended.

3). Substantive

These determine whether control objectives are being achieved. Weak controls imply objectives will not be achieved and substantive tests are designed to confirm this initial audit view on the impact of residual risk. Substantive tests may isolate risks that materialize in the form of error, poor information, direct loss or poor value for money.

4). Dual purpose

This is not a test but a recognition of the practicalities of testing controls where one may wish to combine compliance and substantive testing. An example is to examine an invoice that is certified for payment (compliance test) and is valid (substantive test). It would be impractical to select this invoice twice for two different tests to be separately applied. The important tests are deemed to be compliance or substantive as there are the two main techniques used to support audit work.

The case study continues on the next page.

What about the Case Study?

We will be returning to our case study next where we set control objectives and a test plan or strategy to assess whether controls are working well or not in managing risk.

Introduction to Internal Auditing

Anti Fraud Policy Audit : Your Case Study

Risk & Control Evaluation Schedule

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9.
Audit
Fieldwork

Control Objective (1) To ensure that all employees understand fraud risk management. Having established the process for preparing, updating and disseminating the fraud policy, the auditor evaluated the existing arrangements through the use of Internal Control Evaluation Schedules. Testing comes next and this stage of the audit is based on implementing the testing strategy derived from the Risk assessed Control Evaluation. For a larger version see the next page.

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
1.1. Failure to formulate a fraud policy. (rated 21)	1.1 Board requirement that fraud standard is prepared	Not followed up by the Board	1.1 Examine board position and check that the reviewed fraud policy is discussed	
1.2. Failure to disseminate fraud policy (rated 19)	1.2 Provision of policy to new staff	Okay for new staff	1.2 Check that new staff receive the policy	
1.3 Policy does not address key issues adequately (rated 15)	1.3 Update each two years	Time period may be sufficient	1. 3 Assess current policy against best practice guidelines	
1.4 Staff not aware of their roles and responsibilities (rated 20)	1.4 Fraud policy mentioned in staff handbook	Okay	1.4 Survey staff to assess the level of understanding among employees	

Introduction to Internal Auditing

BCT

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
1.1. Failure to formulate a fraud policy. (rated 21)	1.1 Board requirement that fraud standard is prepared	Not followed up by the Board	1.1 Examine board position and check that the reviewed fraud policy is discussed	
1.2. Failure to disseminate fraud policy (rated 19)	1.2 Policy of providing policy to new staff	Okay for new staff	1.2 Check that new staff receive the policy	
1.3 Policy does not address key issues adequately (rated 15)	1.3 Update each two years	Time period may be sufficient	1. 3 Assess current policy against best practice guidelines	
1.4 Staff not aware of their roles and responsibilities (rated 20)	1.4 Fraud policy mentioned in staff handbook	Okay	1.4 Survey staff to assess the level of understanding among employees	

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9.
Audit
Fieldwork

Control Objective (2)
To ensure that all suspicions of fraud and irregularity are reported and properly investigated.

Check the next page for a full size version.

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
2.1. Staff unsure of what action to take if they come across suspicions of wrongdoings. (rated 18)	2.1 Response plan within policy contains advice.	Insufficient detail and advice on this matter	2.1(a) Assess fraud policy for adequate detail on roles 2.1(b) Include relevant question in staff survey	
2.2. Responsibility for receiving allegations unclear (rated 15)	2..2 Financial controller is nominated officer.	May be in-appropriate	2.2 Check competencies for this role & whether part of Financial Controller's job profile 2.3(a) Test views in the survey & carry out interviews. 2.3(b)	
2.3 Culture of non reporting in place impairs procedure (rated 19)	2.3 No specific controls.	Apparent weakness	Review past frauds and assess whether they could have been reported earlier	
2.4 Evidence damaged due to inappropriate response to allegation (rated 20)	2.4 Fraud policy states that staff should not conduct investigations	Okay	2.4 Review recent frauds and assess whether evidence treated properly at the outset	

Introduction to Internal Auditing

BCT

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
2.1. Staff unsure of what action to take if they come across suspicions of wrongdoings. (rated 18)	2.1 Response plan within policy contains advice.	Insufficient detail and advice on this matter	2.1(a) Assess fraud policy for adequate detail on roles 2.1(b) Include relevant question in staff survey	
2.2. Responsibility for receiving allegations unclear (rated 15)	2..2 Financial controller is nominated officer.	May be in-appropriate	2.2 Check competencies for this role & whether part of Financial Controller's job profile	
2.3 Culture of non reporting in place impairs procedure (rated 19)	2.3 No specific controls.	Apparent weakness	2.3(a) Test views in the survey & carry out interviews. 2.3(b) Review past frauds and assess whether they could have been reported earlier	
2.4 Evidence damaged due to inappropriate response to allegation (rated 20)	2.4 Fraud policy states that staff should not conduct investigations	Okay	2.4 Review recent frauds and assess whether evidence treated properly at the outset	

9.
Audit
Fieldwork

Control Objective (3) To ensure that appropriate action is taken after the investigation has been completed. Each of these tasks should be carried out in the most efficient and effective way. In fact, the audit involved setting a precise test objective for each of the tasks in question. Not all these tests are shown here, as extracts only will provide an idea of how this stage of the audit was done.

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
3.1. Staff disciplinaries not conducted to terminate staff involved in fraud (rated 23)	3.1 Disciplinary code calls for dismissal for fraud	Okay	3.1 Review recent frauds and assess disciplinary action taken	
3.2. Criminal charges not brought against internal and external fraudsters (rated 25)	3.2 No policy of prosecutions as each case is considered on its merits	Apparent weakness	3.2 Review recent frauds and assess charges brought	
3.3 Lost funds that could be subject to restitution not recovered (rated 20)	3.3 No specific mention in fraud policy	Apparent weakness	3.3 Review recent frauds and assess whether restitution are managed	
3.4 Lessons not learnt from frauds in terms of improved controls (rated 22)	3.4 No specific mention in fraud policy	Apparent weakness	3.4 (a) Review recent internal and external frauds and allegations - assess whether controls have been improved 3.4(b) Assess whether general fraud intelligence from the business sector is used to improve controls	

Introduction to Internal Auditing

BCT

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
3.1. Staff disciplinaries not conducted to terminate staff involved in fraud (rated 23)	3.1 Disciplinary code calls for dismissal for fraud	Okay	3.1 Review recent frauds and assess disciplinary action taken	
3.2. Criminal charges not brought against internal and external fraudsters (rated 25)	3.2 No policy of prosecutions as each case is considered on its merits	Apparent weakness	3.2 Review recent frauds and assess charges brought	
3.3 Lost funds that could be subject to restitution not recovered (rated 20)	3.3 No specific mention in fraud policy	Apparent weakness	3.3 Review recent frauds and assess whether restitution are managed	
3.4 Lessons not learnt from frauds in terms of improved controls (rated 22)	3.4 No specific mention in fraud policy	Apparent weakness	3.4 (a) Review recent internal and external frauds and allegations - assess whether controls have been improved 3.4(b) Assess whether general fraud intelligence from the business sector is used to improve controls	

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Risk & Control Evaluation Schedule

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9.
Audit
Fieldwork

We turn now to a test schedule for Control Objective 2. The corporate HR database 10,500 employees. The following tasks were carried out:
Database downloaded and sorted into two groups. Two questionnaires were designed, one for the first group of new staff and the other questionnaire for the second group of employees (staff over six months in post). See next page for larger version of our table.

TEST PLAN	IRaC REF	DETAILED TEST DESCRIPTION	RESULTS
2.1(a) Assess fraud policy for adequate detail on roles 2.1(b) Include relevant question in staff survey 2.2 Check competencies for this role & whether covered by Financial Controller 2.3(a) Test views in the survey & carry out interviews. 2.3(b) Review past frauds and assess whether they could have been reported earlier 2.4 Review recent frauds and assess whether evidence treated properly at the outset		Compare current policy with best practice guidance from the IIA and CIPFA. Extract aspects of the current policy that are weak on role definition Question for staff survey; has your role and responsibility in respect of fraud detection, prevention and response to allegations been made clear? And If so how was this achieved? Examine job detail of financial controller (FC) and assess whether it provides adequate coverage of competencies required to be the main representative on fraud issues. Obtain FC's views on this point Question for staff survey; has your responsibility for reporting suspicions of fraud and abuse been made clear? And if so how was this achieved? Examine the files of last three fraud allegations that have been recorded and assess whether the reporting system has operated effectively Examine the files of the last three frauds and assess whether the response was managed to protect the available evidence	Role of respective parties in the organization well defined with sufficient levels of detail (working paper 7.12) Staff have a poor understanding of their roles and only 10% of employees in post over six months could remember the policy or had a copy readily available. 25% of new employees (in post under six months) looked at the fraud policy in their staff handbook (working paper 7.05) No mention of responsibility for managing the corporate fraud policy (WP 7.21) Financial Controller has no interest in retaining this role (WP 7.27) 80% of staff surveyed had been given no information on the whistleblowing procedures (WP 7.05) One of the three frauds examined was not reported earlier because the staff in question did not realize such a facility existed (WP 7.08) No documentary proof of poor management of evidence at early stage of during the investigation (WP 7.14)

Group 01 employees in post less that six months (500 staff).

Group 02 employees in post for six months or more (10,000).

TEST PLAN	REF	DETAILED TEST DESCRIPTION	RESULTS
2.1(a) Assess fraud policy for adequate detail on roles		Compare current policy with best practice guidance and extract aspects of the policy that are weak on role definition	Role of respective parties in the organization well defined with sufficient levels of detail (working paper 7.12)
2.1(b) Include relevant question in staff survey		Question for staff survey; has your role and responsibility in respect of fraud detection, prevention and response to allegations been made clear? And If so how was this achieved?	Staff have a poor understanding of their roles and only 10% of employees in post over six months could remember the policy or had a copy readily available. 25% of new employees (in post under six months) looked at the fraud policy in their staff handbook (working paper 7.05)
2.2 Check competencies for this role & whether covered by Financial Controller		Examine job detail of financial controller (FC) and assess whether it provides adequate coverage of competencies required to lead on fraud issues. Obtain FC's views	No mention of responsibility for managing the corporate fraud policy (WP 7.21)
2.3(a) Test views in the survey & carry out interviews.		Question for staff survey; has your responsibility for reporting suspicions of fraud and abuse been made clear? And if so how was this achieved?	Financial Controller has no interest in retaining this role (WP 7.27) 80% of staff surveyed had been given no information on the whistleblowing procedures (WP 7.05)
2.3(b) Review past frauds and assess whether they could have been reported earlier		Examine the files of last three fraud allegations that have been recorded and assess whether the reporting system has operated effectively	One of the three frauds examined was not reported earlier because the staffer did not realize this facility existed (WP 7.08)
2.4 Review recent frauds and assess whether evidence treated properly at the outset		Examine the files of the last three frauds and assess whether the response was managed to protect the available evidence	No documentary proof of poor management of evidence at early stage of during the investigation (WP 7.14)

Extracts questionnaire for group one:
FRAUD POLICY AUDIT -
Dear abc ,
You have been chosen at random to take part in a survey on level of awareness of the fraud policy. This information will be confidential. This is not part of the whistle blowing policy. We appreciate your assistance and ask you to return the survey by xx 200x. For further information about this survey please do not hesitate to contact Fred Fredricks on xxx.

Audit; *Corporate Anti-Fraud Policy*

Test Objective form; REF *56*

Objective: To assess staff awareness of the published Fraud Policy

Approach:	Sample:
Download employee database and extract two random samples of employees in post less that six months (DB 1) and those in post six months and over (DB 2)	Judgment based on small number to avoid excessive time; Database 1 - 10,000 employees: judgment sample of 100 employees selected by a random number generator and names (phone &e-mail contacts) selected for survey Database 2 - 500 employees: Judgment used to select sample of 20 new staff.

Results (extracts):

2.1(b) Staff has a poor understanding of their roles and only 10% of employees in post over a six months could remember the policy or had a copy readily available. 25% of new employees (in post under six months) have looked at the fraud policy in their staff handbook. (working paper 7.05)

2.3 (a) 80% of staff surveyed had been given no information on the whistleblowing procedures (WP 7.05)

Etc…..

Signed; Lead Auditor Date	Reviewed; Audit Manager Date

Extracts from the Survey:

Extracts from the Survey:

Q1. Have you seen the fraud policy issued
by the company?   **Yes   No**

Q.2. Are you aware of the contents of this policy?   **Yes   No**

Q.3. Has your role and responsibilities regarding fraud
prevention and detection been made clear to you?   **Yes   No**

Q.4 Please describe your understanding of your role in fraud
prevention and detection.

And so on...

An additional level of documentation can be prepared for each separate test, and the Test Objective Form is attached to the test working papers. Tests 2.1(b) and 2.3(a) were based on questions for the staff survey.

The survey will result in a stack of completed questionnaires.

The Test Objective Form is a covering document that is attached to the test papers (in this case the returns and analysis of these returns).

The final point to note about testing strategies and schedules is that a further level of documentation may be prepared to assist the process. The test plan came from the Internal Control Evaluation and response to the key risks that were identified at this stage. The test plans were then recorded in the Test Schedules that provided more details of the test and then recorded a summary of the test results.

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Documentation

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9.
Audit
Fieldwork

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Audit testing results in much material that should support the reported audit opinion and associated recommendations.

The test results along with other material gathered will constitute audit evidence and this should be recorded in electronic audit working papers.

Standards of working papers and documentary evidence are important and there is a view that good standards are a prerequisite to good control.

Standard 2330 Documenting Information

Internal auditors must document sufficient, reliable, relevant, and useful

information to support the engagement results and conclusions.

2330.A1 – The chief audit executive must control access to engagement

records. The chief audit executive must obtain the approval of senior

management and/or legal counsel prior to releasing such records to external

parties, as appropriate.

9.
Audit
Fieldwork

Have a go at this exercise.

What makes for good audit evidence.
Design a suitable criteria.

Introduction to Internal Auditing

Spencer's eGuides

BCT

9.
Audit
Fieldwork

Introduction to Internal Auditing

The evidence the auditor uses for the audit opinion should be acceptable and we can examine one criteria for good evidence over the next few pages.

Good Audit Evidence

- Sufficient

- Relevant

- Reliable

- Practical

Is there enough audit evidence?

Introduction to Internal Auditing

Evidence - Sufficient

This is in line with materiality, levels of risk and the level of auditors' knowledge of the operation. Sufficient means enough, which depends on circumstances. It should be enough to satisfy the auditor's judgment or persuade management to make any changes advocated by audit. It could mean enough to ensure there is a wide spread of material or an acceptable sample. Evidence is adequate when it meets the desired purpose. The audit opinion may range from 'it is clear that...', 'it would appear that...', 'there are indications that...', and 'there is the possibility that...'. 'In the current environment of cost constraint'. the amount of evidence secured should be the minimum to form an opinion in that it takes more resources to obtain more proof that conclusions are sound.

Does the evidence relate to the testing objectives?

Evidence – Relevant

This ensures that evidence is directed to the control objectives. Relevance brings into play the need to ensure the findings relate specifically to the issues at hand. It is wrong to refer to matters that do not impact on the arguments that appear in the audit report, as a way of blurring the issues at hand. The auditor must use professional judgment in deciding what is important. Test results that refer to low-level detail cannot be used to comment on material considerations that have a far-reaching effect on management's ability to achieve. Relevance means that the evidence is associated to the key concerns and that it is material to them.

Can we rely on the evidence?

Evidence – Reliable

The information should be accurate, without bias and if possible produced by a third party or obtained directly by the auditor. The term 'reliable' stimulates images of the evidence being 'dependable, honest, sound, and true'. This may in turn be applied to the audit report that is based on this evidence, as in one sense and in contrast, unreliable evidence creates an opposite impact by lowering the credibility of the auditor's work. The rules on obtaining audit evidence require it to be done in a way that minimizes bias. The reliability factor must be applied by the auditor to satisfy him/herself and must also satisfy the perceptions of the report reader. Independence and accuracy are the main components of the reliability index that need to be fully addressed by the auditor, in the search for good evidence.

Can we actually get hold of the evidence?

Evidence - Practicable

One would weigh up the evidence required, the cost and time taken to obtain it and sensitivity. Some matters cannot be discovered through audit since it would take too much research. There are many examples of this, that range from getting a definitive verdict on the state of the customer database, through to obtaining a view on whether staff are well motivated. Not all matters may be studied and documented by the auditor since the general equation suggests that the greater the value of evidence the more resources will be applied to securing it. There is a constraint that means there is a strict limit on the time that can be applied.

9.
Audit
Fieldwork

Have a go at this exercise.

What Sources are normally available to generate good audit evidence?

Introduction to Internal Auditing

There are many ways that one can gather the necessary evidence to support the testing objective. The variety of evidence gathering techniques are limited only by the imagination of the auditor. Whatever techniques used, it is important to record all results carefully. For more sensitive ones such as client satisfaction surveys, the auditor should make it clear to management that the exercise is being undertaken. The next page has a bit more.

How do we get hold of the Evidence?

Re-performance   *Observation*

Corroboration   *Analytical review*

Inspection   *Reconciliation*

Expert opinion   *Interviews*

Review of published reports/research   *Independent confirmation/Comparison*

Receiving the service as a client   *Questionnaires Mathematical models*

User satisfaction surveys

9.
Audit
Fieldwork

Introduction to Internal Auditing
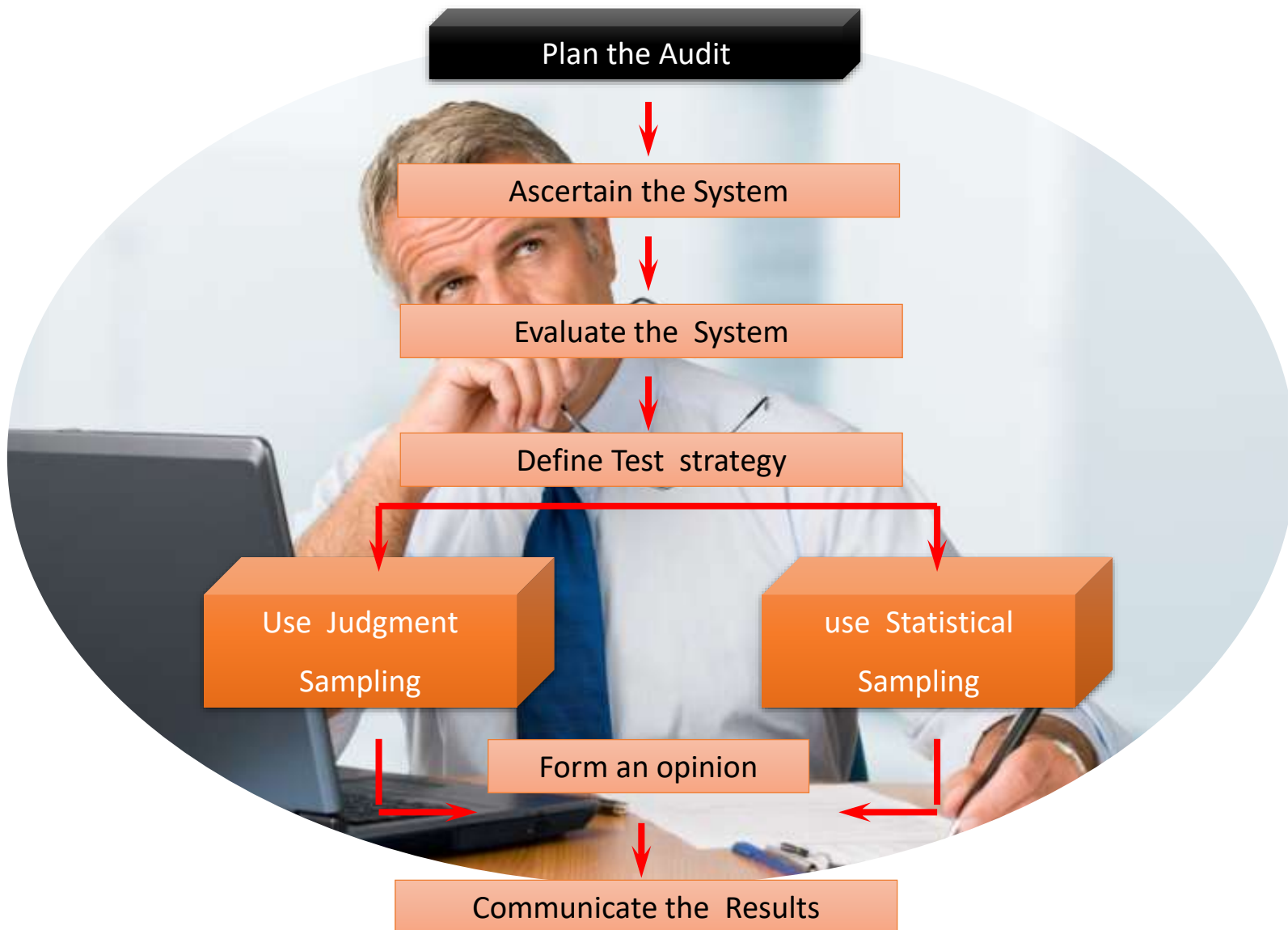
What About Samples?

We often need to extract data from a large file to get an idea of the extent of problems resulting from the issues being investigated. If staff in an after-sales team complain that information held on their records differs from data from a call centre that deals with customer enquiries, it is vital to check this complaint. The database may contain some 5,000 customer accounts. One way is to select a sample from the database and check the level of errors. The idea is that the extent of errors in the sample can be used to estimate the extent of errors in the entire system so that the overall scale of the problem can be assessed.

For example: It is possible to take say, 50 accounts from this database and then check them against the manual records. It is equally possible to select only 10 accounts to save time. Much will depend on the time available and the potential severity of the problem. If all 5,000 accounts from the database were examined, knowledge of the scale of the problem would be 100% reliable, but very time consuming. Depending on the sample size, the results will range from very precise (for a large sample), to only a guess (for a small sample). Each item in the database should have an equal chance of being selected to ensure that any sample is fair and not open to bias. To instil this randomness in the sample, take the total number of accounts, divide this by the sample size (call the result 'n') and then select every nth item.

It is also possible to consider using statistical sampling where the sample size is based on the size of the entire database and the degree to which the investigator needs to be certain that the results will fall within set parameters of accuracy. The degree of certainty of the results allows the investigator to make claims regarding the extent of error in the entire database based on the extent of errors in the sample that was examined. The average result from the sample will need to be multiplied by the total number in the population to give an estimate of the total number of errors.

Many data extraction applications have an in-built statistical sampling facility, where the total records and the degree of certainty required can be input to obtain a recommended sample size. Where the auditor's report will be seen by managers who are comfortable with scientifically presented material, they may appreciate the use of statistical sampling. In most organizations a reasonable sample based on the auditor's judgement will normally suffice.

All auditors need knowledge of statistical sampling and it is advisable to adopt a clear policy regarding its use. It is important that test samples are representative of the population from which they are taken. The audit department should define a clear policy on the use of this technique and where and how it should be applied, and this should appear in the audit manual.

Introduction to Internal Auditing

Plan the Audit

Ascertain the System

Evaluate the System

Define Test strategy

Use Judgment Sampling

use Statistical Sampling

Form an opinion

Communicate the Results

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SECTION FIVE
REPORTING

Time to talk about
the reporting stage
of the audit which is
about
communicating the
results.

Introduction to Internal Auditing

Plan the Audit

Ascertain the System

Evaluate the System

Define Test strategy

Test Apparently

Sound Controls

Test Apparently

Weak Controls

Form an opinion

Communicate the Results

Have a go at this exercise.

Having completed the audit fieldwork, how would you go about preparing the report?

Introduction to Internal Auditing

The audit report is the result of a comprehensive process and is a means to an end.

There are several clear parts of the audit process that directly impact on the audit report based around risk based Internal Control Evaluation Schedule. Which will detail each major control weakness that appears as an audit finding in the published report.

Comprehensive Audit Work Performed

Detailed Working Papers

Summary Schedules for each Working Paper

INTERNAL CONTROL EVALUATION SCHEDULE

Closure Meeting

Draft Report

Final Report

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9.
Audit
Fieldwork
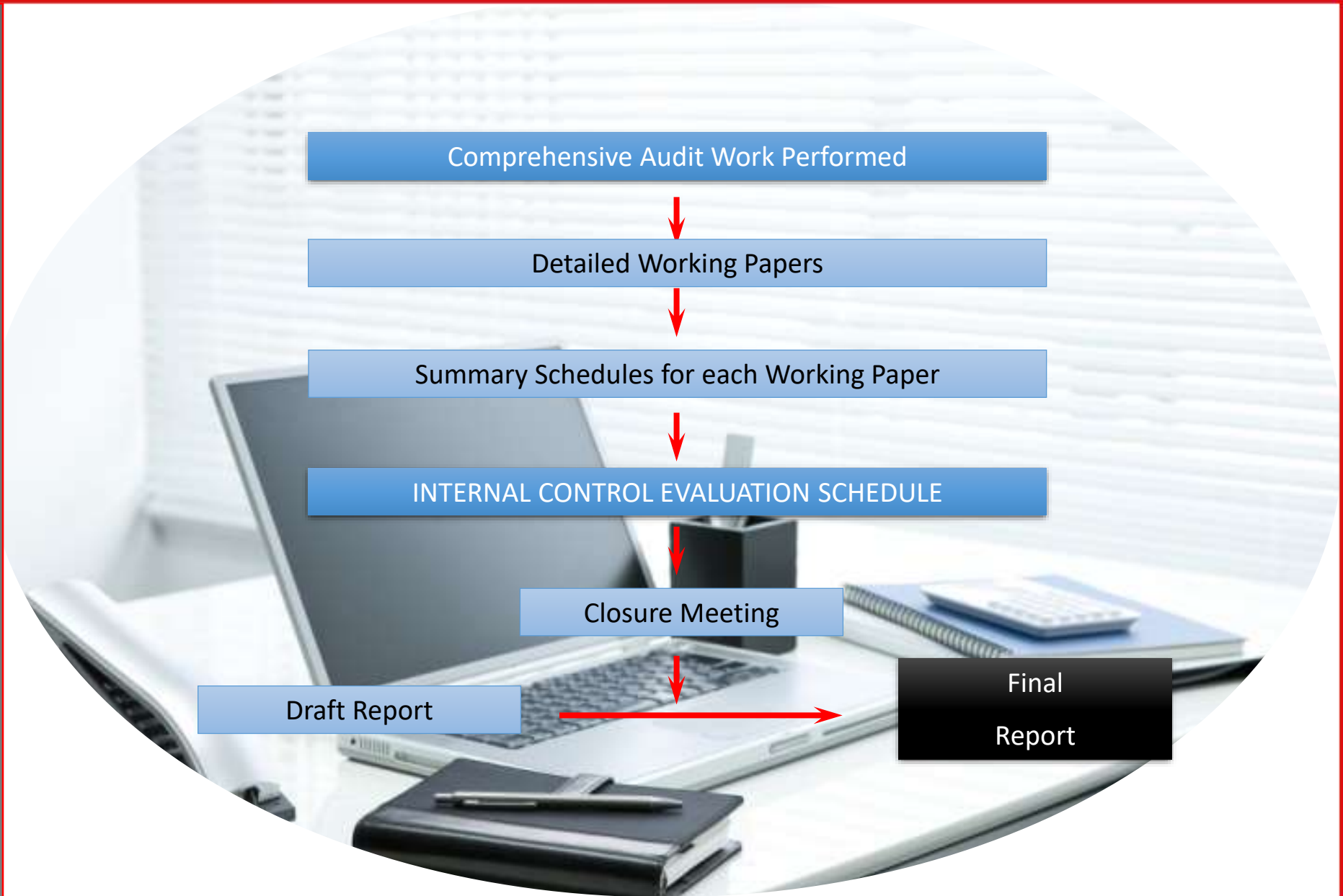
Before we continue let's mention the closure meeting.

This is another crucial part of the audit where findings are discussed with the client manager and feedback given on the audit and what will appear in the pending draft audit report.

Let's return to our case study.

Introduction to Internal Auditing

Comprehensive Audit Work Performed

Detailed Working Papers

Summary Schedules for each Working Paper

INTERNAL CONTROL EVALUATION SCHEDULE

Closure Meeting

Draft Report

Final

Report

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9.
Audit
Fieldwork

The Internal Control Evaluation Schedule (ICE) records a summary of all that has happened during the audit and ICE will indicate:
• What the system is trying to achieve - the systems and control objectives.
• The operational risks identified and assessed that impact on the ability to achieve these objectives.
• The test strategy and summary results.
• The audit opinion and associated recommendations.

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
2.1. Staff unsure of what action to take if they come across suspicions of wrongdoings. (rated 15)	2.1 Response plan within policy contains advice	Insufficient detail and advice on this matter	2.1(a) Assess fraud policy for adequate detail on roles. 2.1(b) Include relevant question in staff survey	While policy itself covers key areas, many employees have a poor understanding of their roles **REC**: Staff awareness seminars should be held across the org.
2.2. Responsibility for receiving allegations unclear (rated 19)	2..2 Financial controller is nominated officer	may be in-appropriate	2.2 Check competencies for this role & whether covered by Financial Controller	Financial controller post is not equipped to take responsibility for fraud policy. **REC**: Re-assign role, could be part of new head of compliance role that is now being developed.
2.3 Culture of non reporting in place impairs procedure (rated 20)	2.3 No specific controls	Apparent weakness	2.3(a) Test views in the survey & carry out interviews. 2.3(b) Assess whether past frauds could have been reported earlier.	Little awareness of whistleblowing procedures and no specific encouragement to use the arrangements **REC**: Build this into fraud awareness seminars for staff
2.4 Evidence damaged due to inappropriate response to allegation (rated 20)	2.4 Fraud policy states that staff should not conduct investigations	Okay ·	2.4 Review recent frauds and assess whether evidence treated properly at the outset.	Once started , fraud investigations are carried out to high standards, from the outset. **REC**: n/a

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KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
2.1. Staff unsure of what action to take if they come across suspicions of wrongdoings. (rated 15)	2.1 Response plan within policy contains advice	Insufficient detail and advice on this matter	2.1(a) Assess fraud policy for adequate detail on roles. 2.1(b) Include relevant question in staff survey	While policy itself covers key areas, many employees have a poor understanding of their roles. **REC**: Staff awareness seminars should be held across the org.
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2.4 Evidence damaged due to inappropriate response to allegation (rated 20)	2.4 Fraud policy states that staff should not conduct investigations	Okay .	2.4 Review recent frauds and assess whether evidence treated properly at the outset.	Once started , fraud investigations are carried out to high standards, from the outset. **REC**: n/a

Audit reporting is one of those fundamental techniques that must be mastered by the auditor. Sawyer has made clear that: *Reports are the auditor's opportunity to get management's undivided attention.*

Some auditors argue that the audit report is the fundamental end product of any audit and IIA Performance Standard **2400** states that:

Internal auditors must communicate the results of engagements.

While standard **2410** sets a criteria for communicating: *Communications must include the engagement's objectives, scope, and results.*

Assurance reporting is covered by **2410.A1**:

Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Before the full audit report is produced one would expect interim reports particularly on larger projects. These have three main uses:

1. It forces the auditor to build the report as work is progressed.

2. It keeps the audit manager up to date and allows interim reviews of work performed.

3. In this way, it may be given to the client and so act as a continuous report clearance device as well as bringing the client into the audit process itself.

9.
Audit
Fieldwork

Introduction to Internal Auditing

9. Audit Fieldwork

Have a go at this exercise.

What makes for a good audit report?

It is possible to produce the final draft shortly after conclusion of the field work. This approach will also allow audit to comply with the IIA reporting standards which suggest that nothing in the report should come as a surprise to management.

In fact the IIA's IPPF Performance Standards endorse this view and says that:

2410.A1: Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

2410.A2: Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3: When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

2410.C1: Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

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9.
Audit
Fieldwork

The audit terms of reference and clear qualifications set out within the report will clarify the extent of audit coverage. There are many views and approaches adopted by audit report writers and each has justification.

The audit role may be derived from these four objectives. The underlying goal may be to act as a catalyst for all material improvements to controls to ensure that key risks are mitigated and systems objectives are achieved.

The four main functions of the audit report are:

1. To Assure management that business risks are well controlled.
2. To Alert them to areas where this is not the case and there are defined risk exposures.
3. To Advise them on steps necessary to improve risk management strategies.
4. To support Action plans prepared by client management.

Some audit teams grade their assessment of the risk management process and the level of assurance they can give that all is well:

Risk Grade
➢ Very Good
➢ Acceptable
➢ Partially Acceptable
➢ Unacceptable

Audit Assurances
➢ **Full Audit Assurance**
➢ **Satisfactory Audit Assurance**
➢ **Partial Audit Assurance**
➢ **No Audit Assurance**

It is a good idea to form an agreed action plan with management. This allows management to take over the audit recommendations and so be fully involved in implementing them. We can now work through the final part of the case study that involves reporting the results of the audit assignment. There is a short note on clearing reports then back to your case study.

An action plan may be devised during the drafting procedure and once agreed, included in the published report. Each audit report should give management an insight into the state of risk management and enable them to take action. Where management forms its own action plan, this is a great way of getting audit recommendations implemented, although there may be some negotiation by both sides. The auditor should work out how to convince management to act based on the amount of residual risk that would remain. The best solution is to include the action plan within the executive summary as part of the agreed solution and we would look for items such as work required, by whom, deadlines and reporting lines as a way of ensuring that the recommendations will come about. Once agreed, the action plan should belong to management to implement.

Introduction to Internal Auditing

Audit Report Clearance Process

One approach to audit presentations is to use them in the report drafting procedure to involve management and get an interactive response from them:

1. Complete field work with ongoing discussion with management on findings as they arise.

2. Draft a report that sets out work done, findings and recommendations.

3. Convene a briefing where the report is discussed, concentrating on the outline recommendations as the most important part. Give out the draft report at this meeting and 'sell the ideas'.

4. Ask management to consider the detailed report and meet again for its response. An action plan should then be formulated.

5. Review the report to take on board any matters that management has brought to your attention.

6. Send the report out for wider consultation with all who feature.

7. Prepare final report for formal publication.

The old adage of 'Assure, Alert, Advise and Action' can be applied where we deem our role as Assuring management that all is well. If not, we would Alert them to any particular problems and then furnish some degree of Advice to assist them and promote effective Action.

The audit report may be derived from these four concepts in the search of excellent added value from the audit service.

9.
Audit
Fieldwork

Introduction to Internal Auditing

The auditor needs to report the results of the audit work. In an e-business context, this may consist of a verbal briefing and short schedule (not unlike the ICE) that says what was considered, what risks were assessed, what the auditor found and what can be done to improve risk management and control.

But, the traditional approach is to prepare a formal audit report and this report becomes a published document available to authorized parties.

CORPORATE FRAUD POLICY

This is one version of the Executive Summary, with extracts only for Control Objective 2.

EXECUTIVE SUMMARY

INTRODUCTION

A review of the corporate fraud policy was requested by the Audit Committee at their meeting of xx 200x and included in the audit plans for 20xx/20yy. The audit was carried out during the period xxx - yyy 200x using the risk based systems approach to assurance audits.

The terms of reference for the audit were agreed with the Financial Controller, who is the process owner for the fraud policy, to review the existing arrangements for ensuring that:
• Staff understand the corporate anti-fraud policy and their roles and responsibilities in respect of fraud prevention, detection and response.
• There are suitable measures for reporting suspicions of fraud and irregularity.
• There is a capacity to investigate fraud and irregularity to professional standards.

It was agreed that a formal audit report will be issued to the audit committee, CFO and Financial Controller.

The audit did not include any steps to detect fraud or investigate specific allegations, and only concerned the adequacy and effectiveness of the fraud policy. A description of the work carried out is found in the main body of the report.

We extend our thanks to all those staff who assisted us in the performance of the audit.

Introduction to Internal Auditing

BCT

Audit report
executive summary.

9.
Audit
Fieldwork

FINDINGS

(Control Objective 2 only)

The fraud policy is well designed and covers all important aspects of fraud prevention, detection and response, and is regularly updated by a specialist external consultant.

The Financial Controller post is not equipped to take responsibility for fraud policy. The postholder has no available resource which allows him to disseminate the policy to employees, apart from its inclusion in the staff handbook.

The fraud policy is not widely publicized and many employees have a poor understanding of their roles and responsibilities under the policy. This impairs the effectiveness of fraud risk management and the company's whistleblowing procedures.

Introduction to Internal Auditing

Audit report opinion and recommendations.

AUDIT OPINION
(Control Objective 2 only)

Fraud is seen by the board as one of their top ten risks. Fraud investigations are conducted in a professional manner once problems concerning irregularity have come to light. However, the degree to which the fraud policy is understood by employees across the organization is inadequate. This means the risk of fraud in terms of prevention and detection is not being managed to an acceptable level. The audit recommendations are designed to address the various shortcomings and are attached as part of the action plan, agreed with management.

AUDIT RECOMMENDATIONS
(Control Objective 2 only)

A program of staff awareness seminars should be established to ensure employees are aware of the fraud policy and build the risk of fraud into their risk assessment workshops where appropriate.

The responsibility for the fraud policy should be assigned to the post of Compliance Officer that is currently under development. Responsibility for the fraud policy should be shared between the Financial Controller and Legal Officer until the Compliance Officer is appointed.

The management action plan based on this audit has been agreed with all relevant parties and is attached.

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Anti Fraud Policy Audit : Your Case Study

Risk & Control Evaluation Schedule

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9.
Audit
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The management action plan based on this audit has been agreed with all relevant parties and is attached.

AUDIT RECOMMENDATION	MANAGEMENT ACTION	RESPONSIBLE PERSON	EVALUATION AND TARGET DATES
1. A program of staff awareness seminars should be established to ensure employees are aware of the fraud policy and build the risk of fraud into their risk assessment workshops where appropriate.	**1.** The chair of the audit committee has asked that internal audit conduct these seminars, the sponsor being the CFO.	CFO and Chief Audit Executive.	The awareness seminars will be developed next month and piloted in the Finance section and rolled out to the other support services, then operations over the next six months. The staff awareness survey will be repeated in six months time to re-assess the level of awareness after the seminars have been concluded.
2. The responsibility for the fraud policy should be assigned to the post of Compliance Officer, currently under development. Responsibility for the fraud policy should be shared between the Financial Controller and Legal Officer until the CO is appointed.	**2.** Agreed as recommended. The responsibility will become part of the Compliance Officer (CO) job requirement that is currently being prepared.	Head of Personnel and chair of the Appointments Panel for new CO post.	Director of Human Resources will report progress to the board at next meeting. Compliance Officer should be appointed and in post by the end of the year.

Introduction to Internal Auditing

AUDIT RECOMMENDATION	MANAGEMENT ACTION	RESPONSIBLE PERSON	EVALUATION AND TARGET DATES
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Note that prior to the 2017 IPPF IIA practice advisory 2210.A1 suggested that internal auditors consider management's assessment of risks relevant to the activity under review.

The internal auditor also considers:

➤ *The reliability of management's assessment of risk.*
➤ *Management's process for monitoring, reporting, and resolving risk and control issues.*
➤ *Management's reporting of events that exceeded the limits of the organization's risk appetite and management's response to those reports*
➤ *Risks in related activities relevant to the activity under review.*

9. Audit Fieldwork

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If you ever end up preparing an audit report that resembles a book. With loads of detail and loads of background material.

Stop, and think about the affect it may have on busy managers who just want to know a few things.

Which means your report may need to focus on four questions.

➢ *Are there any problems I need to know about?*
➢ *How come this happened?*
➢ *Is there too much unchecked risk out there?*
➢ *What options do I have to keep things in check?*

9.
Audit Fieldwork

Introduction to Internal Auditing

An overall audit opinion forces the auditor to consider the wider implications and give a rounded view of the findings.

It is possible to build in a discussion of the pros and cons behind management's current position and whether there are realistic options that may be considered by comparing criteria (the correct state) with condition (the current state).

➤ Criteria: The standards, measures, or expectations used in making an evaluation and/or verification (the correct state).
➤ Condition: The factual evidence that the internal auditor found in the course of the examination (the current state).
➤ Cause: The reason for the difference between expected and actual conditions.
➤ Effect: The risk or exposure the organization and/or others encounter because the condition is not consistent with the criteria (the impact of the difference).

Introduction to Internal Auditing

The auditor should point management in the right direction and stimulate effective management action.

It is possible to adjust the tone of audit recommendations and choose from:

➢ We recommend, etc.
➢ We strongly recommend, etc.
➢ It is advisable for management to, etc.
➢ It is essential that management, etc.
➢ Management needs to urgently address, etc.
➢ Management should consider, etc.

9. Audit Fieldwork

Introduction to Internal Auditing

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Audit Reporting

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9.
Audit
Fieldwork

Some audit teams rate their findings and recommendations to reflect the degree of risk and importance of management action to remedy the situation.

➢ The business objectives in question.
➢ The inherent risk that impacts the ability to deliver the right outcomes.
➢ The adequacy of the risk management process in place.
➢ The residual risk deemed acceptable in terms of the agreed risk appetite.

The Recommendation addresses critical weaknesses that would result in serious risks and/or an unacceptable level of unmitigated risk to the delivery of objectives.

The Recommendation addresses control weaknesses that carry a risk of some loss, waste, fraud or missed business opportunities.

The Recommendation addresses minor control weaknesses that would be remedied by improved control procedures.

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Follow-Up Audits

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9.
Audit
Fieldwork
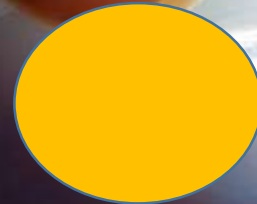
Following up previous audits is crucial as it ensures we know whether agreed audit recommendations were implemented. If these recommendations were not properly applied by management then the original exposure will remain an outstanding risk. A failure to implement may mean audit work is not seen as credible. The next page has a short note on reporting.

➢ Audit Recommendations.
➢ Agreed Management Action Plan.
➢ Follow up of Management Action.
➢ Confirmation that the Excessive Residual Risk has been Addressed.

The Recommendation addresses critical weaknesses that would result in serious risks and/or an unacceptable level of unmitigated risk to the delivery of objectives.

The Recommendation addresses control weaknesses that carry a risk of some loss, waste, fraud or missed business opportunities.
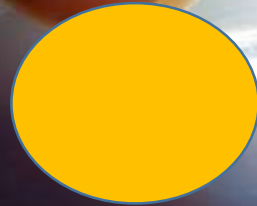
The Recommendation addresses minor control weaknesses that would be remedied by improved control procedures.

Introduction to Internal Auditing

Good Audit Reporting

Most auditors are very efficient when performing the field work and by working hard can give a good impression to clients. Back at the office, there is a tendency to slow down and spend much time on drafting the audit report and this may lead to delays in publishing the report. One solution is to encourage auditors to write reports as they carry out the audit and the outline structure may be drafted as soon as the audit is started so that any gaps may be spotted before the auditor leaves the client.

Where a reporting structure has been agreed via the audit manual then one will be able to complete an outline when the audit is started. The terms of reference part of the report may be drafted from the assignment plan while a section on background to the operation will be available in the early part of the audit.

It is not acceptable to produce reports weeks after the audit and the reporting standard should set clear deadlines on this topic. A typical manager will spend only a few minutes on each item of business before turning to another matter. Auditors who cannot identify with this point will find their work for all intents and purposes ignored.

Managers may speak of the 'audit books' to describe the detailed reports sent out by the audit department that are full of what appears to be insignificant facts and endless testing results. As well as using executive summaries, the auditor is well advised to give oral presentations to bring home audit points and in so doing save management much time and effort. As the audit is coming to an end the client manager will probably want to know:
* What is the problem?
* What caused the problem?
* What are the implications?
* What is the best solution?
* What action should I take?
* What happens if I do nothing?

A good audit report will comment on the key risks facing the business, the way risks are managed and whether specific internal controls are working well in practice. And the state of residual risk – whether it needs to be further managed, why and how.

We have already said that most managers are very busy and don't have time to read a boring 'audit book'. They just want to know whether anything is wrong and what the options are for sorting it out, and what would happen if they do nothing. That is, what risks are likely to hurt them if they are not careful.

Key Business Risks

Overall Risk Management

Specific Internal Controls

Residual Risks & Impacts

Introduction to Internal Auditing

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9.
Audit
Fieldwork

Introduction to Internal Auditing

We have provided a simple introduction to audit field work, from planning through to performing and reporting the engagement.

Your final part will have a go at tackling adding value through the delivery of audit services.

Plan the Audit

Ascertain the System

Evaluate the System

Define Test strategy

Test Apparently Sound Controls

Test Areas of Weak Controls

Form an opinion

Communicate the Results

BCT

9. Audit Fieldwork

Introduction to Internal Auditing

Before we go to the next part, let me give you a concluding remark.

Audit fieldwork is where everything comes together to deliver a quality audit product. That has a reputation for complete reliability.

Your Tutorial

10. ADDING VALUE

1. History of IA
2. Auditing Standards
3. Scope of Audit Work
4. Basic Audit Concepts
5. Quality Assurance
6. The Audit Image
7. Governance & Risk Management
8. The Audit Strategy & Planning
9. Audit Fieldwork
10. Adding Value

10. Adding Value

Introduction to Internal Auditing

PROGRESS MARKER 77 %

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10.
Adding
Value

Introduction to Internal Auditing

Each organization will have its interpretation of good control, good governance and the way risk should be managed.

Internal audit will want to plan its work to fit into this agenda so as to maximize the value that it contributes to the business.

Corporate Aims

Corporate Governance Framework

Risk Management process

System of Internal Controls

Assurances

Advice

Alert

Accuse?

Corporate Results

A Question

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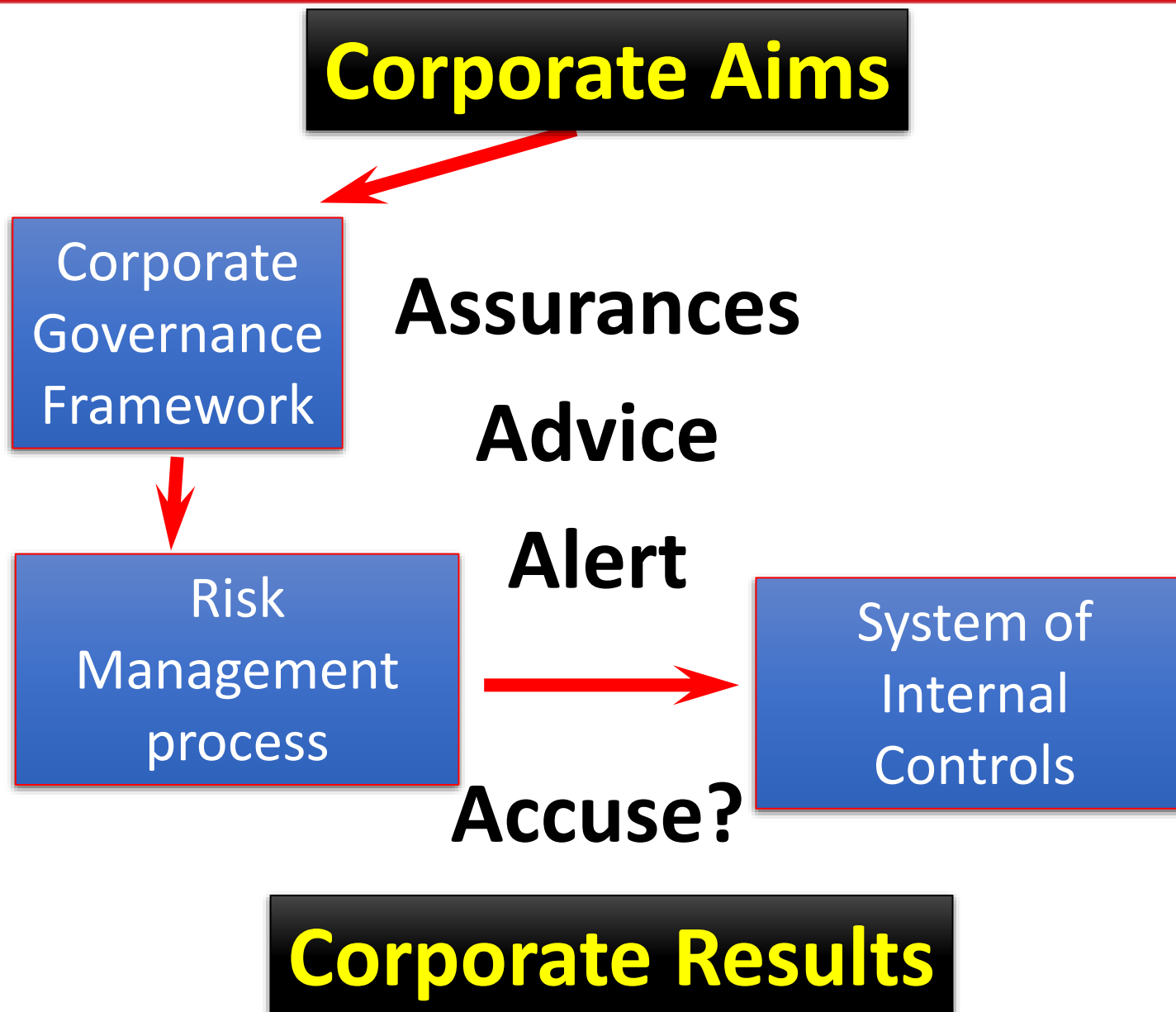
Complete the paragraph by selecting the missing words.

Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through

....

Would you chose 1, 2 or 3 as the most appropriate response? The correct answer is on the next page.

1 *assurance services.*

2 *consulting services.*

3 *both assurance and consulting services.*

?

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An Answer

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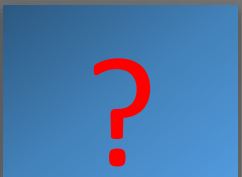
How did you get on?

Both audit assurance and audit consulting work should deliver value to the organization.

This is what we will cover next.
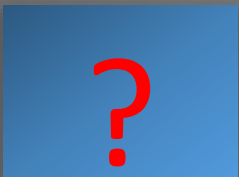
1 ❌ *assurance services.*

2 ❌ *consulting services.*

3 ✅ *both assurance and consulting services.*

?

There is a view that the organization of the future will revolve around its reputation and that the so-called chief risk officer could become the chief reputation officer.

In turn, the internal audit shop will have to consider its own reputation and what it means to the organization.

The internal auditor helps drive and is driven by the corporate governance agenda. In the past, auditors would define their role and responsibilities by considering what they traditionally do and what fitted their skills base. Nowadays, the internal auditor can only really view their role by reference to their contribution to the governance debate and heightened stakeholder expectations - with the tremendous challenges this creates for commerce, business, not-for-profits and wider public sector entities.

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Adding Value

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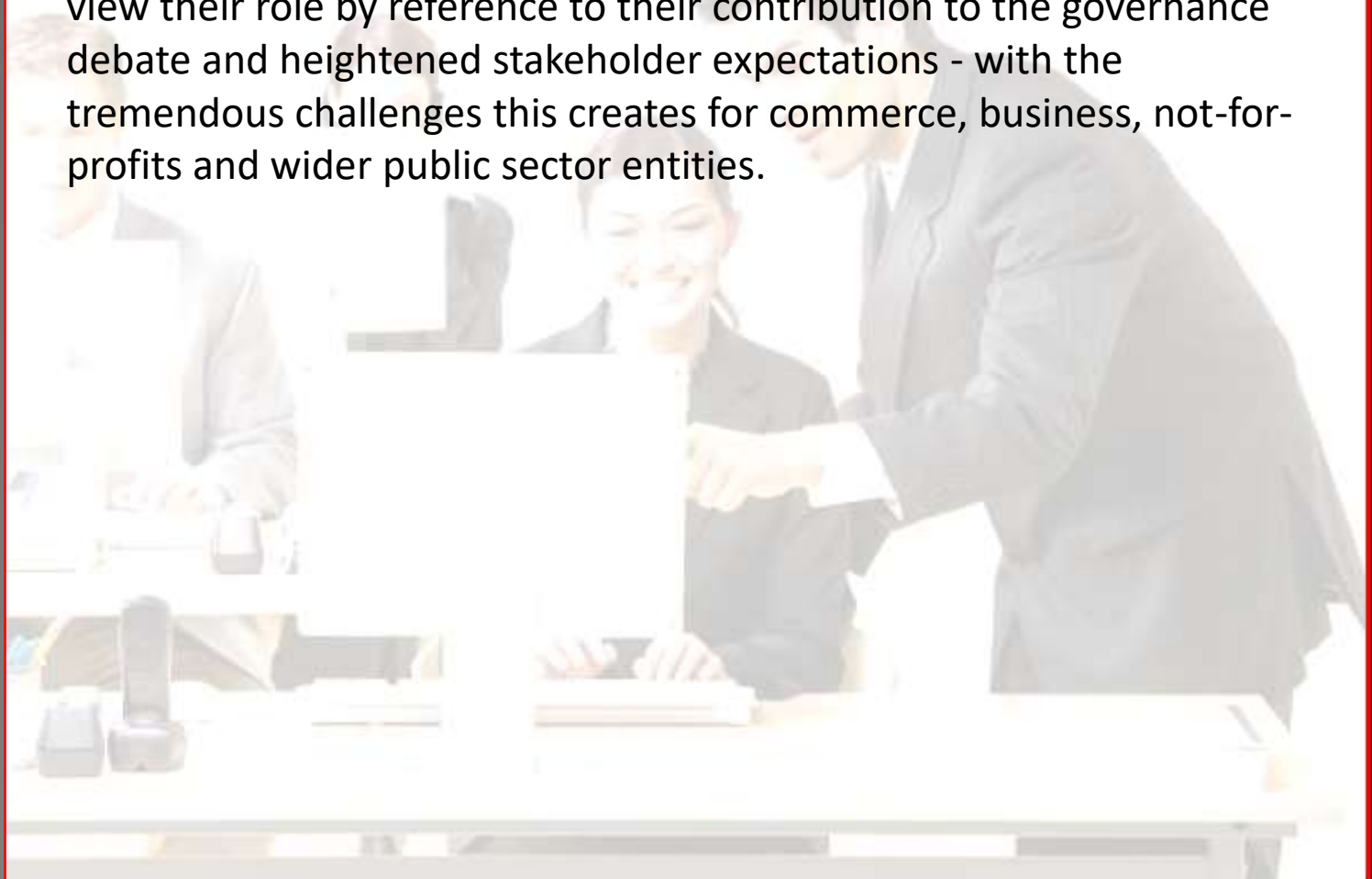
Let's repeat the three lines of defence.

This time using the IIA Position Paper issued in January 2013 which sets out where internal audit fit into the way risk and control processes are operated and reviewed.

The paper makes it clear that the various risk and control functions operating at the different lines should appropriately share knowledge and information to assist all functions in better accomplishing their roles in an efficient manner.

This diagram is taken from the IIA's Position Paper, The Three Lines of Defence in Effective Risk Management and Control (2013) as reproduced in Supplemental Guidance, Internal Audit and the Second Line of Defence (2016).

Introduction to Internal Auditing

Governing Body / Board / Audit Committee

Senior Management

1st Line of Defense

Management Controls

Internal Control Measures

2nd Line of Defense

Financial Control

Security

Risk Management

Quality

Inspection

Compliance

3rd Line of Defense

Internal Audit

External audit

Regulator

The task of providing reliable assurances has never been more crucial to the internal auditing profession.

There are several key issues that underpin the need to ensure internal auditors are able to step up to the plate and fill a gap in the governance framework.

The CAE may want to consider the following five questions:

Five Key Challenges

1. What is the State of the Audit Shop and is it Fit for Purpose?

2. How Does the Audit Service fit into the Corporate Assurance Map?

3. How does the Internal Audit Plan Ensure the Best Use of Audit Resources?

4. Does Audit Work Build Into High Level Assurances?

5. How Can Internal Audit Move Forward?

Introduction to Internal Auditing

The question arises as to how internal audit is able to manage its own risks?

Practice Guide, Developing the Internal Audit Strategic Plan (2012) suggests three critical success factors:
1. Positioning – Is the internal audit activity strategically?
positioned and supported?
2. Processes – Are the internal audit activity's processes?
enabling and dynamic in meeting business needs?
3. People – Does the internal audit activity have the right people strategy to deliver its mission?

1. What is the State of the Audit Shop and is it Fit for Purpose?

The CAE will have to reply on several key audit processes, including:
- Quality assurance and improvement program.
- Periodic review of the audit universe.
- Periodic review of the audit plan.
- Effective risk based audit planning.
- Effective audit design focused on understanding the risk management arrangements and key controls.
- Effective audit management and teamworking.
- Proper audit resource recruitment and allocation in line with risk landscapes.

Most audit teams use the extent to which the audit plans have been completed and the results of customer feedback surveys to help measure their success. The board and audit committee may want to engage with the CAE to define the way audit add value to the organization and develop additional KPIs based around these ideals.

10.
Adding
Value

Introduction to Internal Auditing

Question 02

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Internal audit should define a role that fits with the state of risk management appreciation within the organization which for simplicity is divided into three stages.

Well return to this concept of audit and the assurance map later.

2. How Does the Audit Service fit into the Corporate Assurance Map?

Determine the audit approach using a suitable criteria:

➤ **Risk immature** – internal audit should champion risk management practices.

➤ **Risk irresponsible** – internal audit should challenge risk management practices.

➤ **Risk mature** – internal audit should appraise risk management practices.

Introduction to Internal Auditing

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10. Adding Value

The Risk Based Audit Process seeks to answer three key questions.

Introduction to Internal Auditing

HOW GOOD IS THE ADOPTED RISK MANAGEMENT PROCESS?

ARE KEY RISKS BEING ADDRESSED WITHIN RISK APPETITE?

HOW WELL DOES THE RISK CULTURE SUPPORT BUSINESS PERFORMANCE?

Performance Standard 2010 – Planning states that 'The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals'.

Some of the factors the internal auditor needs to consider when developing the internal audit plan are noted here.

3. How does the Internal Audit Plan Ensure the Best Use of Audit Resources?

Target areas where there are concerns:

➢ Inherent risks — Are they identified and assessed?
➢ Residual risks — Are they identified and assessed?
➢ Mitigating controls, contingency plans, and monitoring activities — Are they linked to individual risk events?
➢ Risk registers — Are they complete, accurate and reliable?
➢ Documentation — Are key risks and mitigation activities documented by risk owners?

Introduction to Internal Auditing

Most auditors are used to planning an audit, working through the field work and preparing a report with a formal opinion.

What is less straightforward is how to align this audit work into macro views that can be applied to large parts of the organizations and major business processes to help underpin the audit assurance role.

The IIA's Practice Guide, Formulating and Expressing Internal Audit Opinions, is quoted here.

There is a bit more on item 4 on the next page.

4. Does Audit Work Build Into High Level Assurances?

IIA guidance suggests that discussions with stakeholders may include:
➢ The value of the opinion to the stakeholders, including (where appropriate) why it is being requested.
➢ The timing for issuance and type of the opinion(s).
➢ The form of opinion to be provided (e.g., written or verbal).
➢ The level of assurance to be provided.
➢ The period or point in time the opinion covers.
➢ The scope of the opinion sought (e.g., whether it should be limited to financial reporting, operational controls, or compliance with specified regulations).
➢ The criteria used in expressing opinions.
➢ The rating process to be applied in relation to individual audit findings.
➢ Potential users of the assurance beyond management and the board.
It goes on to say that it is not uncommon for the internal audit activity to provide opinions at both macro and micro levels, including an opinion on the overall adequacy of the organization's policies, procedures, and processes to support governance, risk management, and internal controls.

Introduction to Internal Auditing

The idea is for each audit to comment on the overall level of assurance regarding the control environment in terms of managing risk.

Some audit teams use a scale of assurances that have a particular meaning.

Have a look at the short note on the Annual Audit Report if you want to explore this subject.

4. Does Audit Work Build Into High Level Assurances?

SUBSTANTIAL ASSURANCE: There are minimal control weaknesses that present very low risk to the control environment.

GOOD ASSURANCE: There are minor control weaknesses that present low risk to the control environment.

ACCEPTABLE ASSURANCE: There are some control weaknesses that present a medium risk to the control environment.

LIMITED ASSURANCE: There are significant control weaknesses that present a high risk to the control environment.

NO ASSURANCE: There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

Introduction to Internal Auditing

Annual Audit Report

The annual report to the organization may be presented via the audit committee and will have two main components. It should set out and discuss the audit achievements according to the annual plan. In addition, it should provide a summary of key areas tackled and any material issues concerning the adequacy of the organization's system of risk management. In this respect, it acts not only as a control over the performance of internal audit but also as a major control over the entire organization.

This latter attribute means that major control issues that have not been adequately addressed will be isolated and brought to the attention of senior management of the organization.

Accordingly, this should be used with great care since it represents the ultimate fail-safe mechanism where all other efforts to get the audit message across have failed.

As well as the general areas that will be discussed, there might also have been specific failings such as key risks being missed by senior management, that will be highlighted for action.

Annual Reporting Cycle

As well as recording the work carried out over the last year, reference will be made to the annual plan that will also be submitted for the coming year. Reports can act as key controls so long as they are linked to a reference point in terms of expectations, that is a form of plan. There is a timing problem in that the planning period will start before the report can be available and this gap has to be dealt with through interim measures. The main point is that the report will discuss the risk mitigation and control problems within the organization, while the plan will seek to address any continuing disorder. The current audit strategy and how far audit plans, based on this strategy, have been accomplished will therefore be a feature of the report. The annual report must be received by the highest levels of the organization, ideally a suitably constituted audit committee who in turn report to the main board. We have argued that the annual audit report is the final device that ensures that audit's findings are published to the organization.

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Question 04

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The big question then, is can the summation of individual audits enable the CAE to provide assurances that comment on the entire organization?

Or should the CAE start to prepare corporate wide reviews of the assurance infrastructure and implant audit work within these maps to give a holistic picture of the quality of risk management within the organization?

Assurance Mapping

One way of getting to grips with the assurance map is to take the various committees and forums that report in to the main board and argue that these bodies represent the assurance infrastructure in that each committee is there to give assurances on a major aspect of the corporate issues that are uppermost in the minds of the board.

Internal audit may be moving to a position where they will be reviewing the extent to which these committees work in giving assurances on areas that they are charged to take care of. Although internal audit can never set the level of acceptable risk, it can comment on the extent to which risk management is aligned to what is viewed as acceptable by the board.

The acceptance of risk and the resolution of any gaps between the opinion of internal audit and the views held by senior management will be the question that all chief audit executives need to face.

In one sense, this will define the audit role as when all is well, the auditor can be a trusted advisor but when there is a problem this role turns to one of critical friend.

The adopted approach comes back to the question of risk appetite and how it can be used to drive the risk governance agenda.

5. How Can Internal Audit Move Forward?

One major concern is how the internal auditor should act if the risk appetite applied in the organization is unacceptable or excessive. What does the auditor do when confronted by reckless behavior? The chief risk officer may also have a view in this situation. There is a big difference between smart risk taking and reckless risk taking. New challenges for internal audit revolve around the theme of daring to go into danger-zones, as well as safe areas.

One such danger-zone is pay and incentives and even bonuses. Huge risks emerge where bonus systems incentivize the wrong set of behaviors and it is here that internal audit may need to step into areas of corporate controversy. Such governance danger-zones tend to hit the risk agenda when they start to appear in the press and impact corporate reputations. It is better for internal audit to step forward and warn about ethical and other concerns before they hit the public eye and governance risks turn quickly into worrying actual events.

Internal Auditors may want to explore five basic imperatives.

Moving Forward – The Audit Imperatives

1. Being clear about the operational objectives in the area being audited and how they create and preserve value for the business.
2. Understanding the business model in place and the way risk is dealt with through the adopted business strategy and effective leadership in delivering the strategy.
3. Working out how the risk management process ensures that these controls work to retain risk within an acceptable risk appetite that the process owner is then accountable for.
4. Considering how management obtains an oversight of the way the business is governed, compliance is ensured and how assurances along with significant risks are reported upwards.
5. Reviewing business management reports for consistency, reliability and whether the reports themselves enable management to make good decisions on high risk issues.

Introduction to Internal Auditing

With the increasing reliance on assurances it is clear that they must be reliable and give value to the business. Essentially, assurances give confidence to the recipient that all is well, or that current action is in hand or that something new needs to be done.

It is implicit in the assurance that the provider of these assurances is professional, independent and has carried out sufficient work to be able to hold an opinion.

We believe audit should assume as high a profile as possible. And rise to the highest position to look down at what is happening in an entity to enable it to review, assess, help and comment. The next two pages explain how this can be done.

Moving Forward – The Audit Position

It may be the case that the internal auditor will need to select a position from one of four points:

1. Being part of the corporate assurance map by giving assurances in defined parts of the business.
2. Coordinating the assurance map by ensuring all assurance teams work together and fit into the enterprise wide risk management process.
3. Leading assurances that seek to review and help improve the enterprise risk management process.
4. Reviewing the assurance giving process to ensure it makes the best use of available resources and gives the board the service it requires.

Introduction to Internal Auditing

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Assurance Maps

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As we come to a close, note that the board and senior management have to be satisfied that major risks across the organization are being addressed to an acceptable degree.

We provide one simple approach to this task which places internal audit as part of the overall assurance map.

Introduction to Internal Auditing

Department A Risk Register

REF	RISK	SCORE	RISK MITIGATION	BY RO	REVIEW KPI
Risk 1					
Risk 2					

Department B Risk Register

REF	RISK	SCORE	RISK MITIGATION	BY RO	REVIEW KPI
Risk 1					
Risk 2					

Internal Audit, Compliance, Risk Management, Legal, Security & Control Teams

Project A1 Risk Register

REF	RISK	SCORE	RISK MITIGATION	BY RO	REVIEW KPI
Risk 1					
Risk 2					

Specialist Team C Risk Register

REF	RISK	SCORE	RISK MITIGATION	BY RO	REVIEW KPI
Risk 1					
Risk 2					

Senior Management Risk Reviews

RISK	CONTROLS	REVIEW DATE	SIGN OFF	COMMENTS
Risk 1				
Risk 2				

REF	RISK	SCORE	RISK MITIGATION	BY RO	REVIEW KPI
Risk 1					
Risk 2					

Aggregate Risk Register

Our vision is somewhat different. It places internal audit as the ultimate review process that considers the overall assurance map. Audit may provide a high level view on the way the organization gains and provides assurances on their risk management process. And in this way, audit acts as the ultimate Third Line of Defence.

Internal Audit Coverage

Department A Risk Register

REF	RISK	SCORE	RISK MITIGATION	BY RO	REVIEW KPI
Risk 1					
Risk 2					

Department B Risk Register

REF	RISK	SCORE	RISK MITIGATION	BY RO	REVIEW KPI
Risk 1					
Risk 2					

Management, Compliance, Risk Management, legal, Security & Control Teams

Project A1 Risk Register

REF	RISK	SCORE	RISK MITIGATION	BY RO	REVIEW KPI
Risk 1					
Risk 2					

Specialist Team C Risk Register

REF	RISK	SCORE	RISK MITIGATION	BY RO	REVIEW KPI
Risk 1					
Risk 2					

Senior Management Risk Reviews

RISK	CONTROLS	REVIEW DATE	SIGN OFF	COMMENTS
Risk 1				
Risk 2				

REF	RISK	SCORE	RISK MITIGATION	BY RO	REVIEW KPI
Risk 1					
Risk 2					

Aggregate Risk Register

Introduction to Internal Auditing

The IIA have summed up the value from internal auditing.
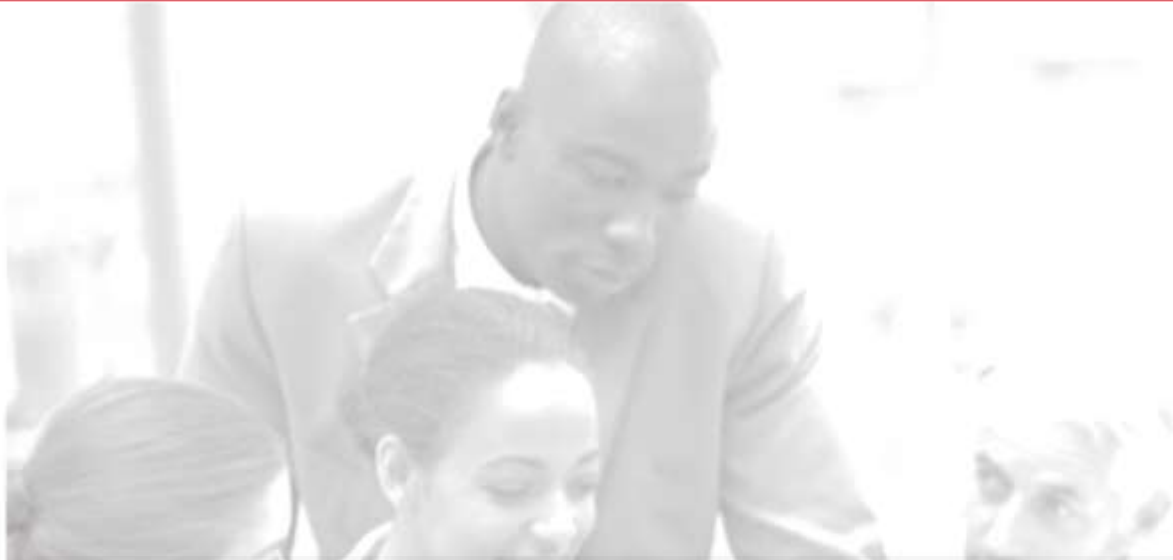
THE IIA - ALL IN A DAY'S WORK
A Look at the Varied Responsibilities of Internal Auditors

Internal auditors are, to a great extent, key to an organization's success. They review the organization's processes, operations, and goals. They provide objective, professional advice to all levels of management and pave the path toward continuous improvement. Competent internal auditors follow the profession's internationally accepted code of ethics and standards for professional practice. They identify the organization's greatest risks and plan audit coverage accordingly.

10.
Adding
Value

Introduction to Internal Auditing

Let me give you a concluding remark before we summarize your Template.

It has been said by thought leaders that if you are not sure whether internal audit really adds value, then it's time to leave the profession.

Let's re-cap your Template:
* Organizational objectives. The starting place for audit work must be the objectives of the organization. If these objectives are based on devolution of corporate services to business units, then the audit mission must also be so derived. Client management should clarify goals and aspirations before audit plans can be formulated and this involves ongoing dialogue with senior management and their teams.

* Assess risk priorities. The relative risks of each audit area must be identified, with reference to the corporate risk database and risk registers used by the board and senior management.

* Resource prioritized areas. Suitable audit resources for these high risk areas must be provided.

Closing Remarks

Introduction to Internal Auditing

Oganizational objectives

Audit Charter

Management's Needs

Resource Implications

Audit Budget

Assess risk priorities

Resource prioritized areas

Audit strategic plan

Annual audit plan

Quarterly audit plan

Outline objectives statement

Preliminary survey

THE AUDIT

Assignment plan

Annual Audit Report

Quarterly Audit Report

THE AUDIT REPORT

* Audit strategic plan. A plan to reconcile workload with existing resources should be developed. This should take on board the various constraints and opportunities that are influential now and in the future.

* Annual audit plan. A formal audit plan for the year ahead is expected by most audit committees.

* Quarterly audit plan. A quarterly plan can be derived from the annual plan. Most organizations experience constant change making the quarter a suitable time-slot for supportive work programs.

* Outline objectives statement. Audit management can make a one-line statement of expectations from an audit from planning work done so far.

Closing
Remarks

Introduction to Internal Auditing

Oganizational objectives

Audit Charter

Management's
Needs

Resource
Implications

Audit Budget

Assess risk priorities

Resource prioritized areas

Audit strategic plan

Annual audit plan

Quarterly audit plan

Outline objectives statement

Preliminary survey

THE
AUDIT

Assignment plan

Annual
Audit Report

Quarterly
Audit Report

THE AUDIT
REPORT

* Preliminary survey. Background research requires thought on key areas to be covered in an audit. This ranges from a quick look at previous files and a conversation with an operational manager to formal processes of many days of background work involving a full assessment of local business risks.

* Assignment plan. We can now draft the audit plan with formal terms of reference, including budgets, due dates and an audit program.

* The audit. Progress should be monitored with all matters in the terms of reference considered.

* The reporting process. Planning feeds naturally into reporting so long as we have made proper reference to our plans throughout the course of the audit. Audit plans will then flow from the organization's strategic direction in dealing with risks to the business, while the underlying process should be flexible - as strategies alter, plans are reassessed.

Your Tutorial

SESSIONS COVERED

1. History of IA
2. Auditing Standards
3. Scope of Audit Work
4. Basic Audit Concepts
5. Quality Assurance
6. The Audit Image
7. Governance & Risk Management
8. The Audit Strategy & Planning
9. Audit Fieldwork
10. Adding Value

Oganizational objectives

Audit Charter
Management's Needs
Resource Implications
Audit Budget

Assess risk priorities
Resource prioritized areas
Audit strategic plan
Annual audit plan
Quarterly audit plan
Outline objectives statement
Preliminary survey

Annual Audit Report
Quarterly Audit Report

THE AUDIT
Assignment plan
THE AUDIT REPORT

Closing Remarks
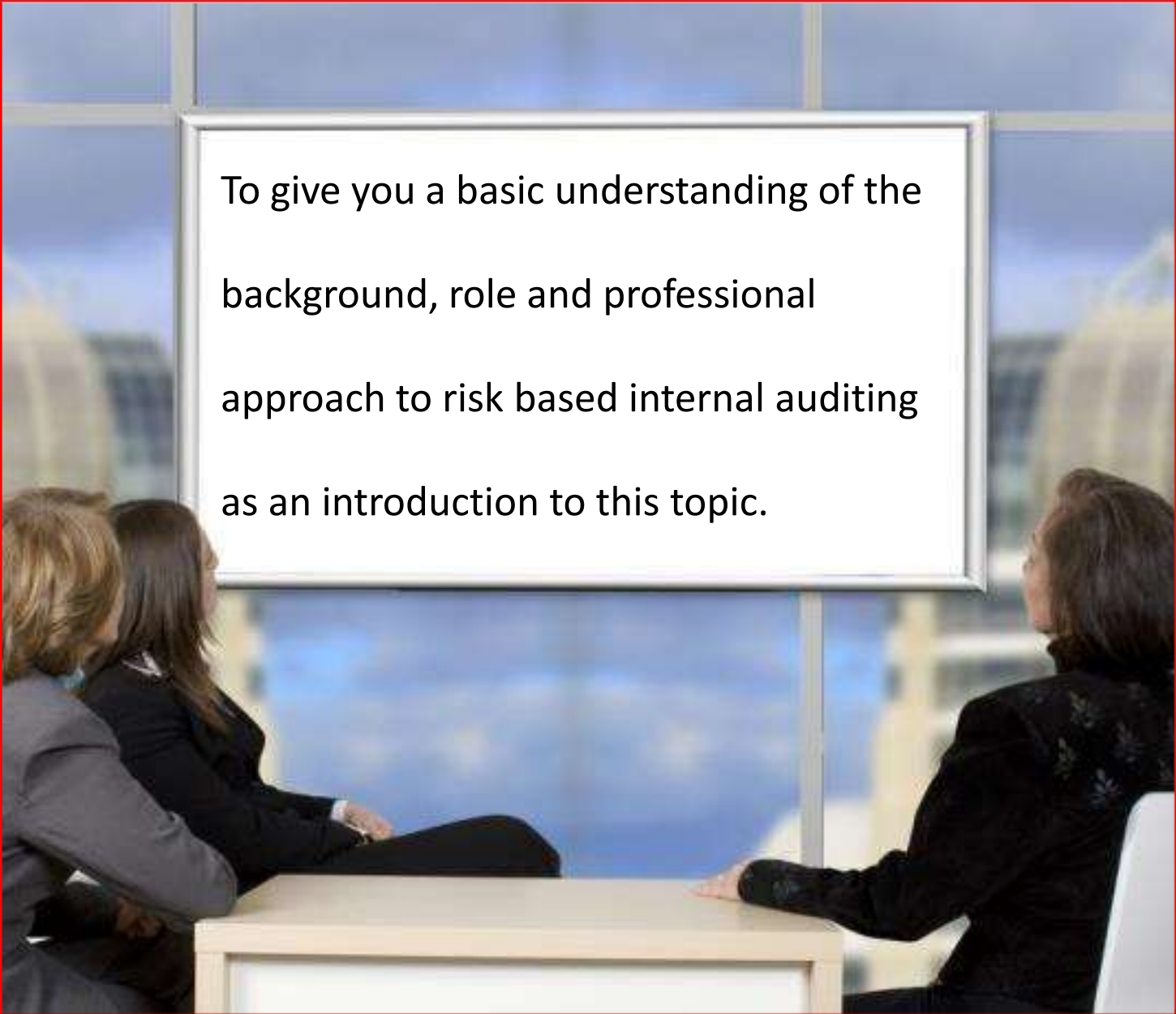
Introduction to Internal Auditing

PROGRESS MARKER
84 %

Closing Remarks

Let's repeat the aims of this eGuide which is cross referenced to the IIA's 2017 International Professional Practices Framework (IPPF).

We hope you have achieved these aims. Don't forget you should contact the Institute of Internal Auditors if you are considering a career as a professional internal auditor at global.theiia.org.

Do you recall the questions that were posed at the start of our Tutorial? Check the next page to see if you can answer them.

To give you a basic understanding of the background, role and professional approach to risk based internal auditing as an introduction to this topic.

Introduction to Internal Auditing

Oganizational objectives

Audit Charter

Management's Needs

Resource Implications

Audit Budget

Assess risk priorities

Resource prioritized areas

Audit strategic plan

Annual audit plan

Quarterly audit plan

Outline objectives statement

Preliminary survey

Annual Audit Report

Quarterly Audit Report

THE AUDIT

Assignment plan

THE AUDIT REPORT

I hope you enjoyed my **e**Guide and trust that you gained some new insights from working through the contents.

All the best from one of my favourite places; Freshwater Bay, Isle of Wight.

BCT

Closing Remarks

Goodbye.

Now you have completed your Tutorial you may wish to do some more work to revise some of the material you have covered.

Below are notes on risk based auditing and a re-cap of your case study on this topic that you can re-read.

After your case study there is a brief note on Cyber Security.

Introduction to Internal Auditing

The need to build the state of risk management into the audit approach calls for some flexibility in the way we apply audit tasks such as ascertaining the risk management system, evaluation, testing and communicating the results. Moreover, there are different types and approaches to audit work that suit different contexts and challenges. One possible approach albeit fairly general, is to frame audit work around a model that we have called RaCE, Risk and Control Evaluation.

Risk and control evaluation (RaCE) is a model that can be applied to many different approaches to audit assurance and consulting services. This simple model is an interpretation of an audit approach that does not start with the need to 'catch people out'. It is based on adapting the approach to the context in question, and moving between the extremes of audit review, facilitating the client's risk assessments to simply validating the current self-assessment process. Let's explain this model.

RISK BASED CONTROL EVALUATION

A — Business Area
B — Corporate Risk Database
C — Control Environment
D — Business Risk Awareness
E — Business Objectives

AUDIT APPROACH

AUDIT REVIEW — VALIDATION

FACILITATION

F RISKS	G RISK RATING	H CONTROL STANDARDS	I KEY CONTROLS	J RaCE & TESTING	K RISK OWNER	L INTEGRATED ACTION PLANS

Comments...

Introduction to Internal Auditing

Control objectives are the positive things business managers want to happen rather than negative things they want to prevent happening and they address the risks inherent in the work being done. They are used by some auditors to represent a statement of the desired result or purpose to be achieved by the specific control procedures to ensure business objectives are achieved.

Once set, it is possible to start thinking about the risks to each of the defined control objectives to reinforce the performance/conformance dimensions of acceptable business practices. The drawback is that it is often difficult to sell the idea of control objectives to client management.

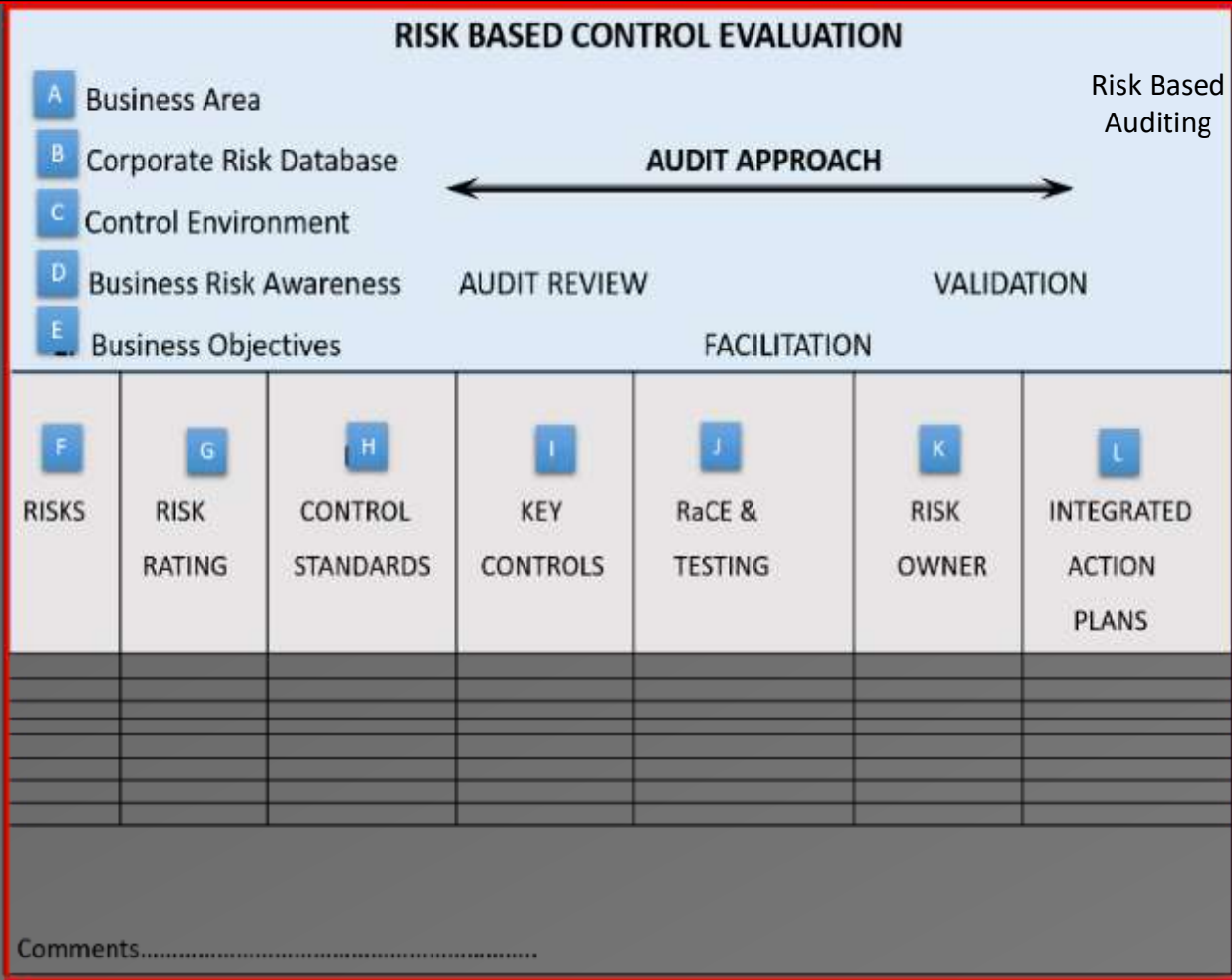If you want more on RaCE we will run through this model over the next few pages.

One approach is to explain that these key control objectives would cover managing risks that are relating to:
* The reliability and integrity of information.

* Compliance with laws, policies and procedures.

* Safeguarding assets and interests.

* Economy and efficiency and effectiveness.

Introduction to Internal Auditing

A): First identify exactly what business area is in the annual audit plan. This may be a section, team, project, process, change program, local office, establishment, contract, business unit or whatever is deemed to be a distinct auditable area.

B): The next step is to find out where the business area (BA) stands on the corporate risks database in terms of relative risk in the organization. This should have been done to form the basis of the annual audit plan.

C): It may then be possible to assess the risk culture in the BA. COSO has assessment questions based around the 'control environment' that can be used to judge whether the BA is on a sound footing in terms of having a risk/control culture that reflects the corporate position in a trustworthy and reliable manner.

RISK BASED CONTROL EVALUATION

Risk Based Auditing

A	Business Area
B	Corporate Risk Database
C	Control Environment
D	Business Risk Awareness
E	Business Objectives

AUDIT APPROACH

AUDIT REVIEW   VALIDATION

FACILITATION

F RISKS	G RISK RATING	H CONTROL STANDARDS	I KEY CONTROLS	J RaCE & TESTING	K RISK OWNER	L INTEGRATED ACTION PLANS

Comments..

D): The next stage is to assess the extent to which risk and control assessment is understood and practised in the BA. Where there is a developed risk/control self-assessment procedure and good appreciation by managers, supervisors and staff generally, then we can start to judge where the BA stands in terms of having a robust risk management process in place and reliable risk registers.
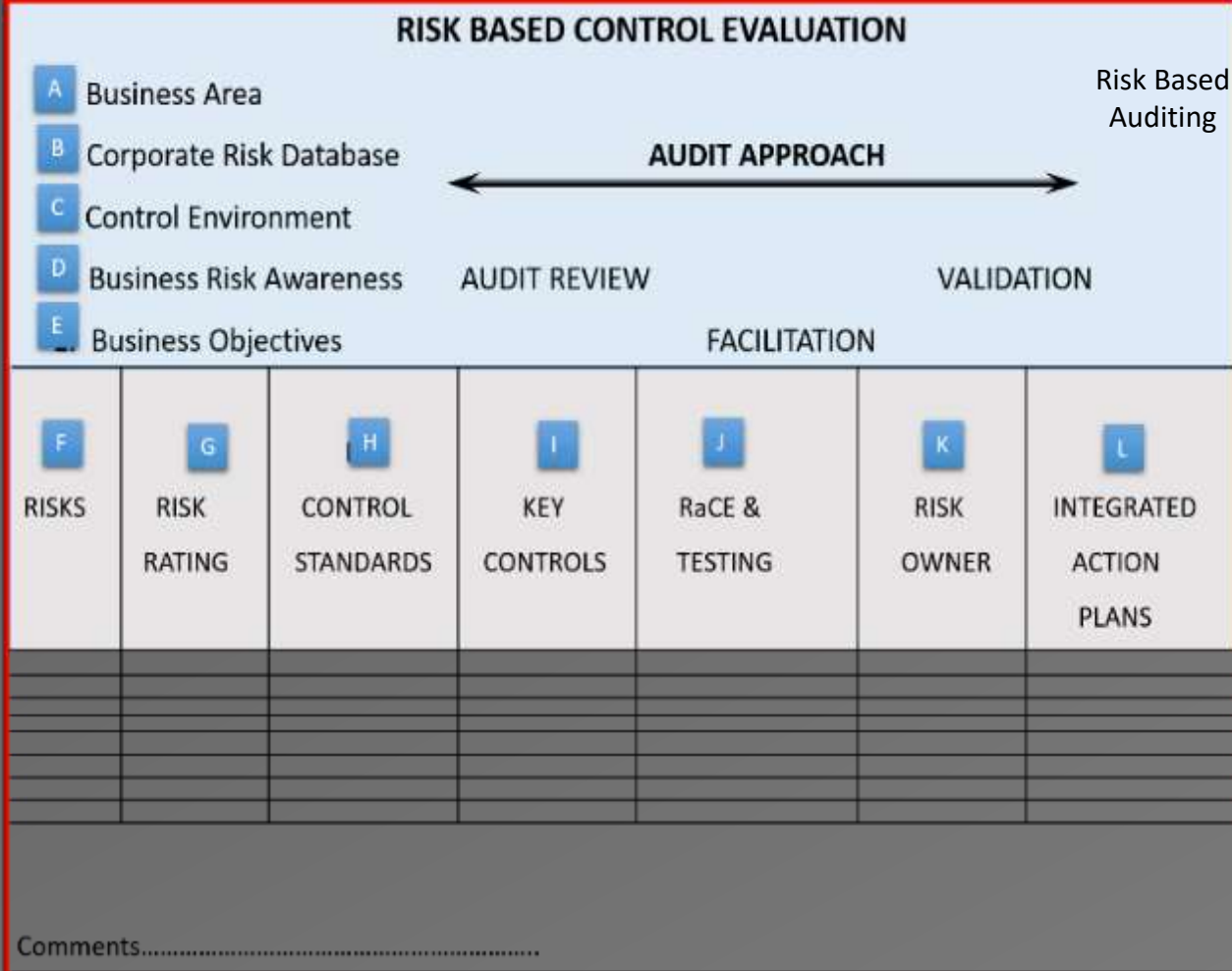
E): This is simply isolating the agreed business objective of the BA in question. Armed with the knowledge secured from the assessments A to E above, the Audit Approach may be determined. This may entail performing a standard audit (Audit Review) where the risk culture and level of risk appreciation is such that it is not possible to rely on a facilitated self-assessment review. Where the BA has a good risk culture but is not equipped to carry out the necessary risk assessments, then a facilitated (Facilitation) approach may be provided by the audit team to help the client get up to par. Where both the risk culture promotes integrity, compliance and competence and self-assessment is being properly applied - then audit may simply validate (Validation) the self-assessment already used by the BA, and concentrate on key controls that have been deemed important in managing the more material risks.

RISK BASED CONTROL EVALUATION

Risk Based Auditing

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Comments...

F): Risk to the achievement of business objectives are defined and updated to reflect current changes. For well-performing BAs the risk assessment will be based more on the future strategy, since the current position is already successfully managed.

G): Risk rating is simply the degree of materiality and likelihood that forms the basis for most risk assessment models.
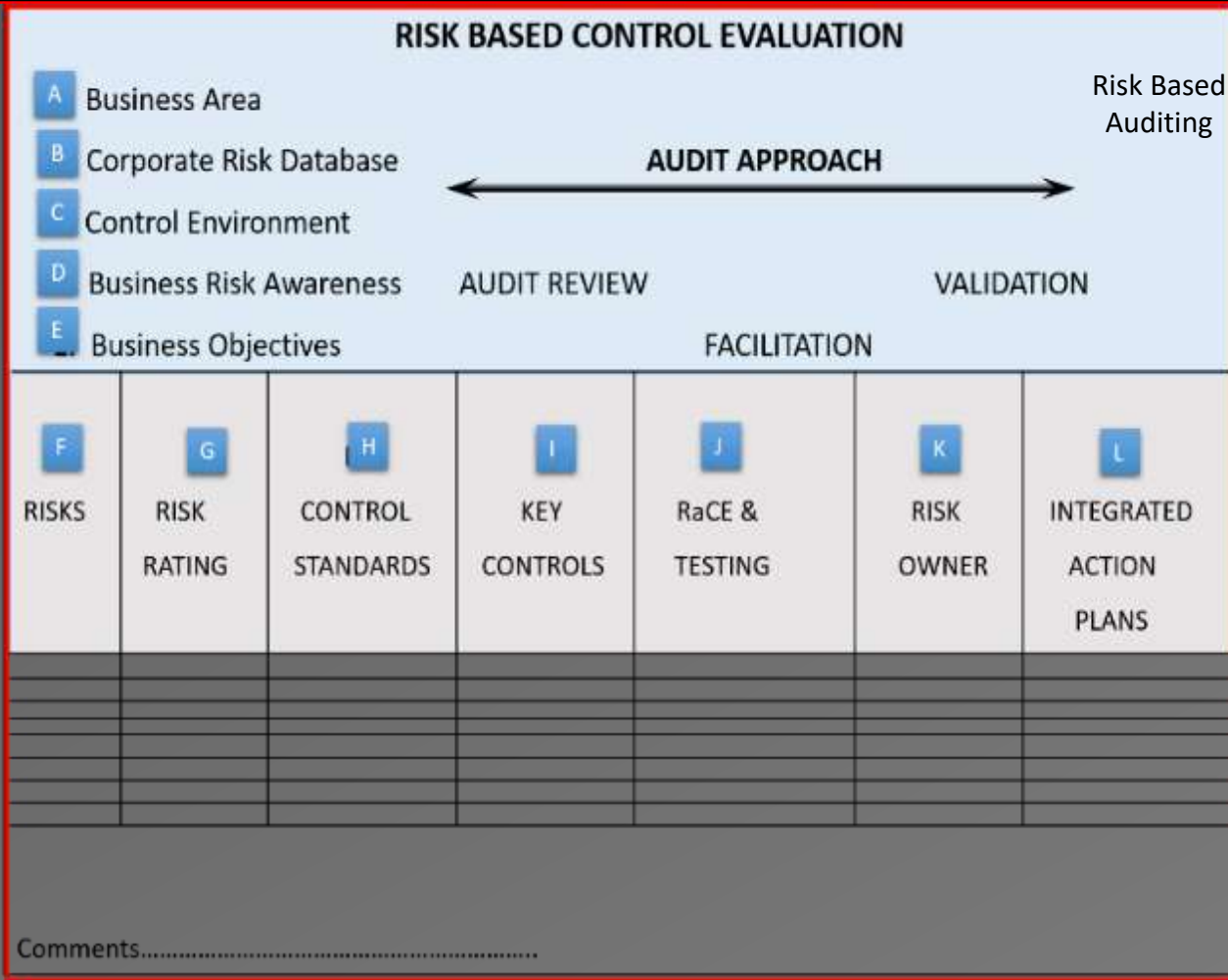
H): Control standards are mechanisms that may be applied to managing the business risks that have been isolated in G. The tasks F to H may be performed by the auditor (for the Audit Review approach), a convened workshop of client staff facilitated by the auditor (Facilitated approach) or through an examination of the current risk assessments already carried out by the client management (Validation audit approach).
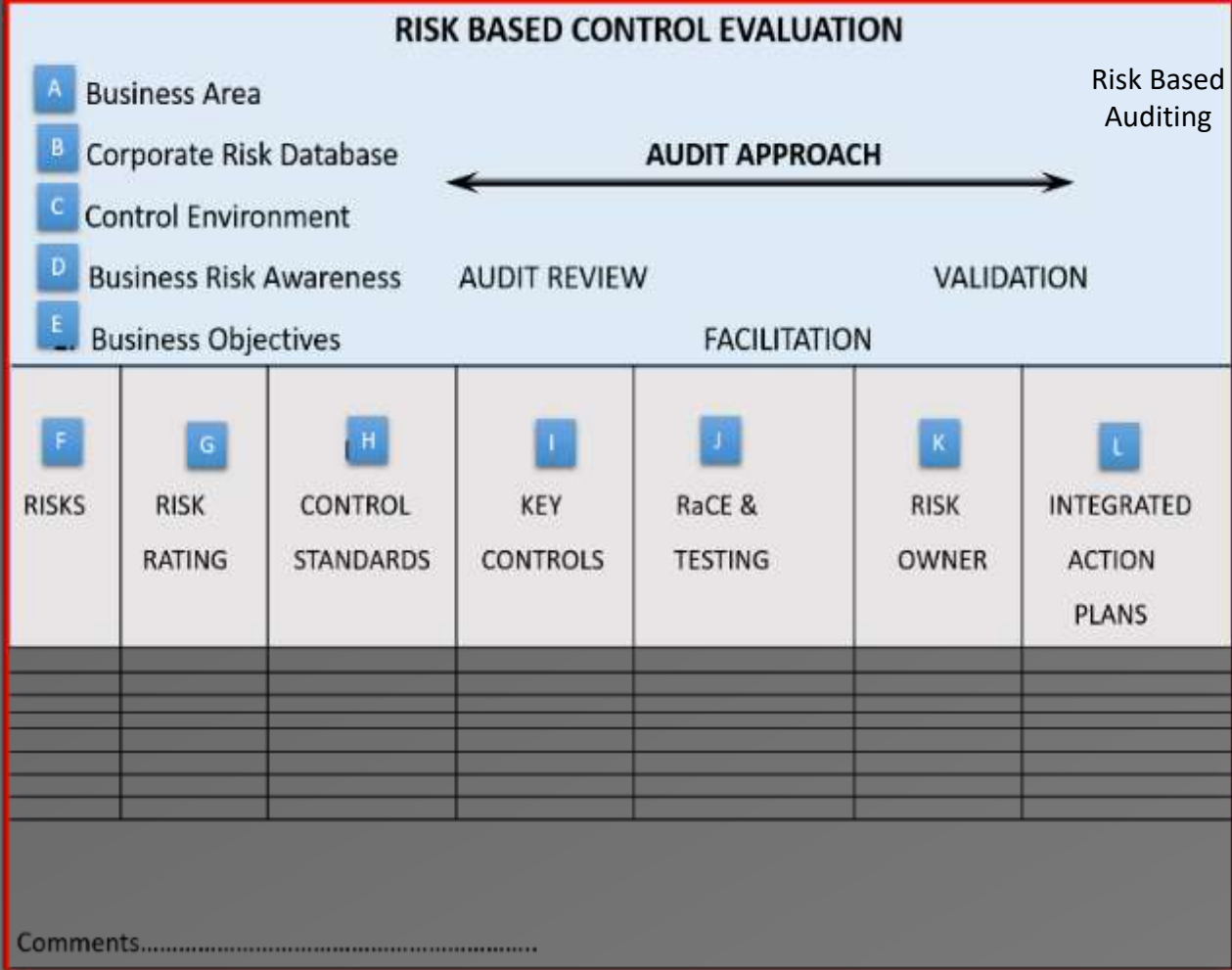
I): This involves identifying the key controls in use.

J): The evaluation and testing stages comes next where the key controls are considered in terms of whether they are sufficient to manage the risks, to the accepted risk appetite and agreed control standards.

K): Each risk assessment should be assigned to a risk (or process) owner so that it is clear where responsibility and accountability lie.

L): This part of the RaCE simply states that action required to manage risks is integrated within the current performance management arrangements. The way this is done is entirely up to the manager so long as the key risks in question are dealt with in an efficient and effective manner in line with the corporate risk policy and defined risk appetite.

Where the auditor captures the above information in the RaCE, this process can drive the audit so that ascertainment is about identifying the system and risk (e.g. any flowcharts/block diagrams and interview records), evaluation features in column J cross-referenced to the auditors' records and testing schedules are also referenced to column J.

Audit recommendations are based around findings from the evaluation and test results and feature in the final column L as a basis for the agreed action plan. The audit report is then a representation of the RaCE and describes the risks, how they are managed and anything more that needs to be done to help ensure business objectives can be achieved. Where the RaCE has been performed by the client staff and facilitated by the auditor, it becomes a joint effort between audit and client with some formal testing performed by the auditor.

RISK BASED CONTROL EVALUATION

Risk Based Auditing

A Business Area
B Corporate Risk Database
C Control Environment
D Business Risk Awareness
E Business Objectives

AUDIT APPROACH ←→

AUDIT REVIEW   VALIDATION

FACILITATION

F RISKS	G RISK RATING	H CONTROL STANDARDS	I KEY CONTROLS	J RaCE & TESTING	K RISK OWNER	L INTEGRATED ACTION PLANS

Comments..

Where the RaCE has already been recently performed by the client, the auditor validates the work, updates the RaCE, performs selective testing and is then able to provide assurances on the adequacy of risk management and the underlying systems of internal control.

The RaCE process depends on all parts of the organization embracing the risk management concept and using internal audit to assist this task with a mixture of assurance and consulting input depending on which approach best suits the business area in question. Which means the auditor:

➢ Recognizes that some business areas can be relied on to self-assess their systems and audit only needs to Validate (and check) the arrangements in place.

➢ Helps Facilitate those business areas that need to develop their risk assessment practices and so assesses their progress at the same time.

➢ Reviews areas where there are obvious problems and makes recommendations to improve the risk culture and get sound risk management practices put in place.

RISK BASED CONTROL EVALUATION

Risk Based Auditing

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F RISKS	G RISK RATING	H CONTROL STANDARDS	I KEY CONTROLS	J RaCE & TESTING	K RISK OWNER	L INTEGRATED ACTION PLANS

Comments...

In this way, risk based auditing may be performed in a way that is both flexible and dynamic and makes sense to the client manager, board and the audit committee.

DO YOU WANT MORE?

You have completed your introductory Tutorial.

If you want to run through your case study one more time then please go ahead and study the next few pages.

YOUR CASE STUDY
The annual audit plan includes an audit of the corporate fraud policy. This was requested by the audit committee as an important feature of the internal control framework adopted by the board.
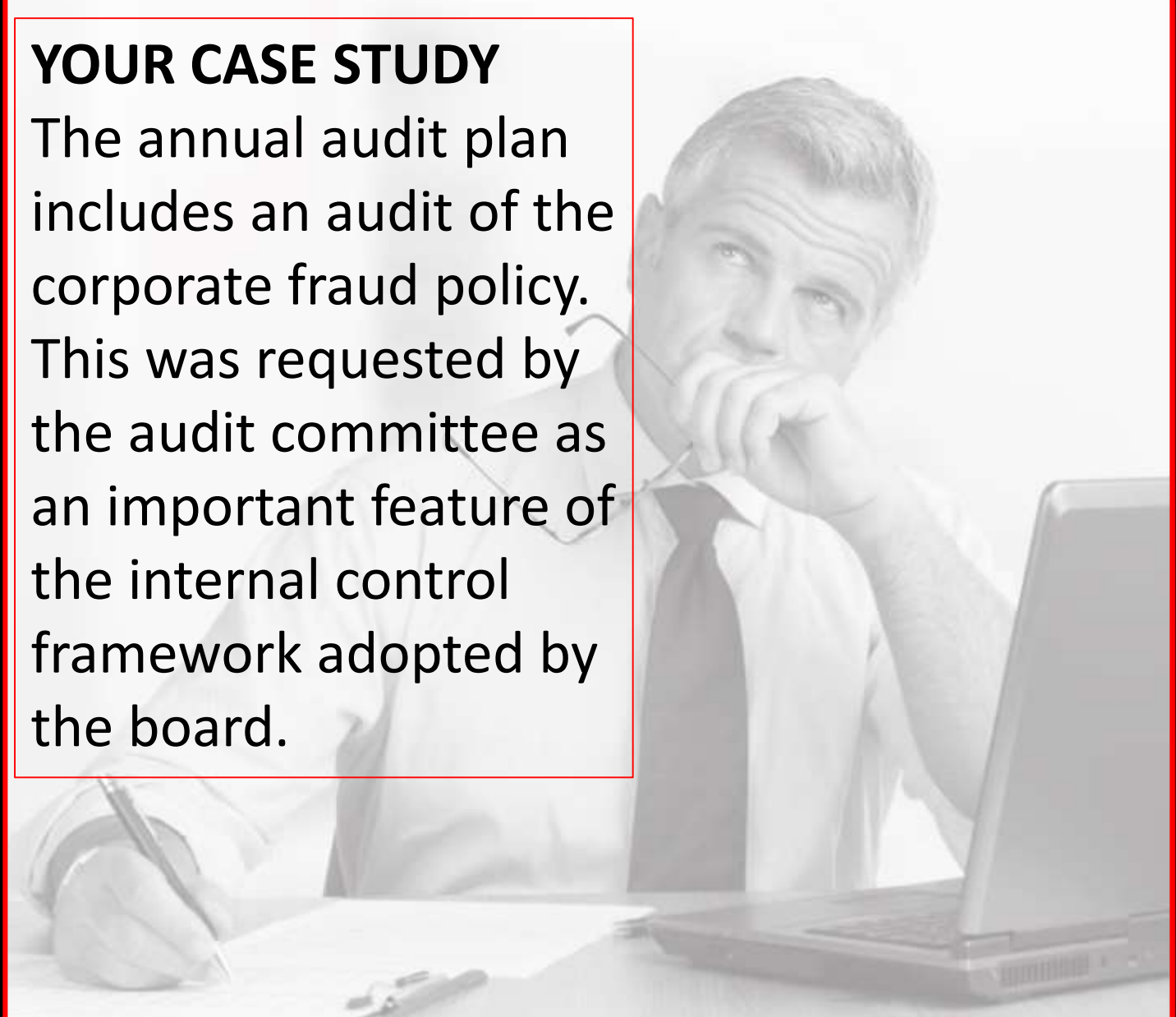
Our case study revolves around three stages of an audit. Planning the work, performing the fieldwork and then reporting the results. In this straightforward example we will use the Risk and Control Evaluation Schedule to focus the audit efforts.

Planning			Fieldwork			Reporting		
REF	RISK	RISK ASSESSMENT	RISK MITIGATION & CONTROLS	TEST RESULTS	RESIDUAL RISK IMPACTS	REQUIRED ACTION	RISK OWNER RESPONSE	REVIEW
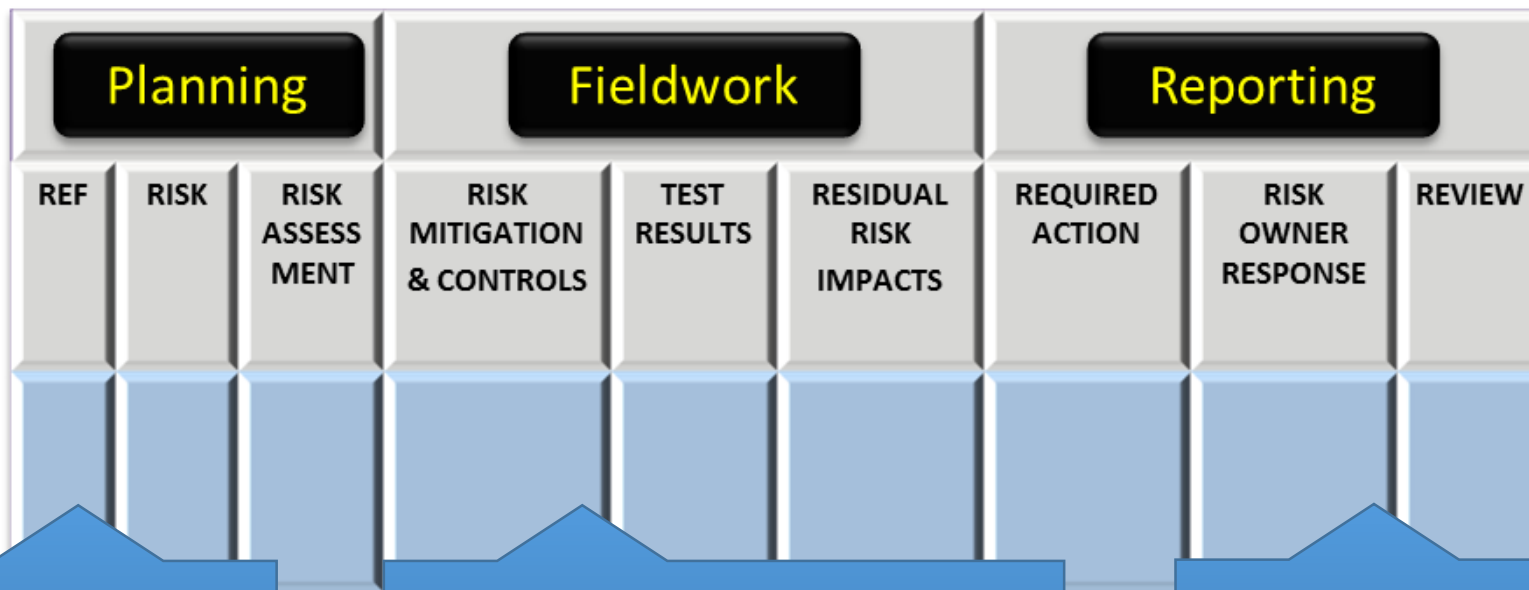
Your audit plan will cover the way risk is being assessed in the area under review and whether this is well developed or not.

Your Fieldwork stage will cover the testing done to assess whether the way risk is being managed works well or not. The key focus is on the residual risk after controls have been implemented and whether this is in line with what is acceptable.

Your report will indicate the required action and responsible person - that is, the risk owner. The management response will indicate how the results of the audit and any recommendations will be acted on.

Introduction to Internal Auditing

BCT

Assignment planning is about thinking through several key issues.

➢ **What are my audit objectives?**
➢ **Are there any laws and/or procedures affected?**
➢ **What information do we have so far on key risks?**
➢ **What kind of support do I need?**
➢ **What happened in the previous audit?**
➢ **What is my initial impression of the maturity of the risk management process in this area/system/project?**
➢ **Who should I talk to, to get background information on the processes, key risks and issues?**

Planning			Fieldwork			Reporting		
REF	RISK	RISK ASSESS MENT	RISK MITIGATION & CONTROLS	TEST RESULTS	RESIDUAL RISK IMPACTS	REQUIRED ACTION	RISK OWNER RESPONSE	REVIEW

Spencer's eGuides

Re-cap Your Case Study

©2017
KHSPickett

Re-Cap
Your Case
Study

2210.A1

Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

Planning			Fieldwork			Reporting		
REF	RISK	RISK ASSESSMENT	RISK MITIGATION & CONTROLS	TEST RESULTS	RESIDUAL RISK IMPACTS	REQUIRED ACTION	RISK OWNER RESPONSE	REVIEW

Preliminary Survey

Audit Resource Budget

Audit Assignment Plan

Your Audit File

The annual audit plan includes an audit of the corporate fraud policy. This was requested by the audit committee as an important feature of the internal control framework adopted by the board. The audit manager assigned the work to a lead auditor who carried out the following tasks.

The audit manager assigned the work to a lead auditor who carried out the following tasks:

• **Contacted the Financial Controller (there is no compliance officer in post), who was the process owner for the fraud policy and arranged a meeting for the following week. This person would have known about the pending audit from the quarterly audit plan which is circulated to senior management.**

• **Lead auditor and audit manager met with the chair of the audit committee to discuss the audit in question. The chair had no particular concerns over and above the need to ensure there was an effective fraud policy in place.**

• **Reviewed the audit files to establish what previous work had touched on the fraud policy and also compiled a list of past fraud detection work and fraud investigations.**

• **Searched the internet for any material from respected web sites such as the IIA and ACFE to secure a background on anti-fraud policies and programs.**

• **Met with the company lawyer to discuss any issues that should be taken on board when reviewing the current fraud policy.**

• **Met with the Financial Controller and discussed the current head office arrangements for managing the risk of fraud and developed an outline terms of reference for the audit that made clear the audit scope and direction.**

As a result of the above, the lead auditor prepared a preliminary survey audit report. This report was reviewed by the audit manager and signed-off by the CAE, and contained work to be carried out, the draft terms of reference and a recommendation to start the audit as soon as practicable. Because it was such a high profile audit, It was presented to the audit committee for comment.

The agreed terms of reference is reproduced below:

1. To review the existing arrangements for ensuring that:
a. staff understand the corporate anti-fraud policy and their roles and responsibilities in respect of fraud prevention, detection and response.
b. There are suitable measures for reporting suspicions of fraud and irregularity.
c. There is a capacity to investigate fraud and irregularity to professional standards.

2. To issue a formal audit report to the audit committee, CFO and Financial Controller in respect of findings and recommendations arising from the audit.

3. The audit will not involve any special tests that seek to detect fraud and irregularity, but will focus on the controls in place that ensure the corporate fraud policy addresses the risk of fraud within the organization. To this end the policy and other relevant documentation will be examined and appropriate staff will be interviewed.

4. The audit will be conducted by Fred Fredicks and start on xx 20xx.

BCT

Having set the form and direction of the audit and agreed that it should go ahead the next stage was to plan the work involved.

This involved taking the set terms of reference and carrying out the following tasks:

1. **Audit job coded and set up on the time management system as a live audit engagement, coded as Assurance Audit; Special Requests From Audit Committee via the annual audit planning process.**

2. **Lead auditor officially assigned to the job.**

3. **Audit team of two junior audit staff also assigned to the job.**

Introduction to Internal Auditing

The Lead auditor and audit manager completed the plan and the audit team briefed:

1. The lead auditor will manage the job in the field and update the client contact (the Financial Controller).

2. The audit manager will visit the location to check progress and discuss any concerns.

3. The two audit staff will spend a week each on assigned tasks.

4. The audit administration officer will organize hotel and travel.

5. The work will focus on the fraud policy and whether disseminated across the organization.

Audit; Corporate Anti-Fraud Policy | Code; *A (Assurance)*

Type; 3 (AC Request) | Prelim Survey Report Ref; 223

1. To review the existing arrangements for ensuring that:

   a)   Staff understand the corporate anti-fraud policy and their roles and responsibilities in respect of fraud prevention, detection and response.

   b)   There are suitable measures for reporting suspicions of fraud and irregularity.

   c)   There is a capacity to investigate fraud and irregularity to professional standards.

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2. The audit will not involve any special tests that seek to detect fraud and irregularity, but will focus on the controls in place that ensure the corporate fraud policy addresses the risk of fraud within the organization. To this end the policy and other relevant documentation will be examined and appropriate staff interviewed.

3. The audit will be conducted by Fred Fredicks and start on xx 200x

Planned Dates:	Budget Days:	
Start; 1 June 20xx	Audit manager; AH 5 days	5
Field work complete; 15 June 20xx	Lead auditor; FF 25 days	25
Draft report released; 20 June 20xx	Audit Staff; TR 5 days RS 5days	10
		40
Steven Obley	*Paula Derish*	
Signed; Audit Manager	Signed; CAE	

BCT

A further meeting was held between the financial controller and the lead auditor to discuss system objectives.

It was agreed that the fraud policy was designed:

1. To encourage an awareness and understanding of the risk of fraud and define roles and responsibilities across the organization for fraud prevention, detection and response.

2. To ensure that all concerns and suspicions are brought to the attention of the appropriate party in a timely manner.

3. To make clear the firm line taken by the organization in respect of bringing criminal charges and taking disciplinary action against anyone involved in, or culpable in fraud or irregularity.

Re-Cap
Your Case
Study

Introduction to Internal Auditing

BCT

It was also agreed that the audit should be guided by the use of three control objectives.

The three control objectives that were defined as:

1. **To ensure that all employees understand corporate standards on fraud risk management.**

2. **To ensure that all suspicions of fraud and irregularity are reported and properly investigated.**

3. **To ensure that appropriate action is taken after an investigation is completed.**

Introduction to Internal Auditing

You will need to decide on your approach as you get to the fieldwork stage.

➤ **Does management have a good idea of the key risks that impact their business?**
➤ **How are these risks being managed?**
➤ **Are key control procedures being properly employed by all staff and associates?**
➤ **What is the implication of weakness in controls?**
➤ **Where and how should I test the adequacy of controls?**
➤ **What do my findings tell me about the extent to which residual risk is acceptable?**
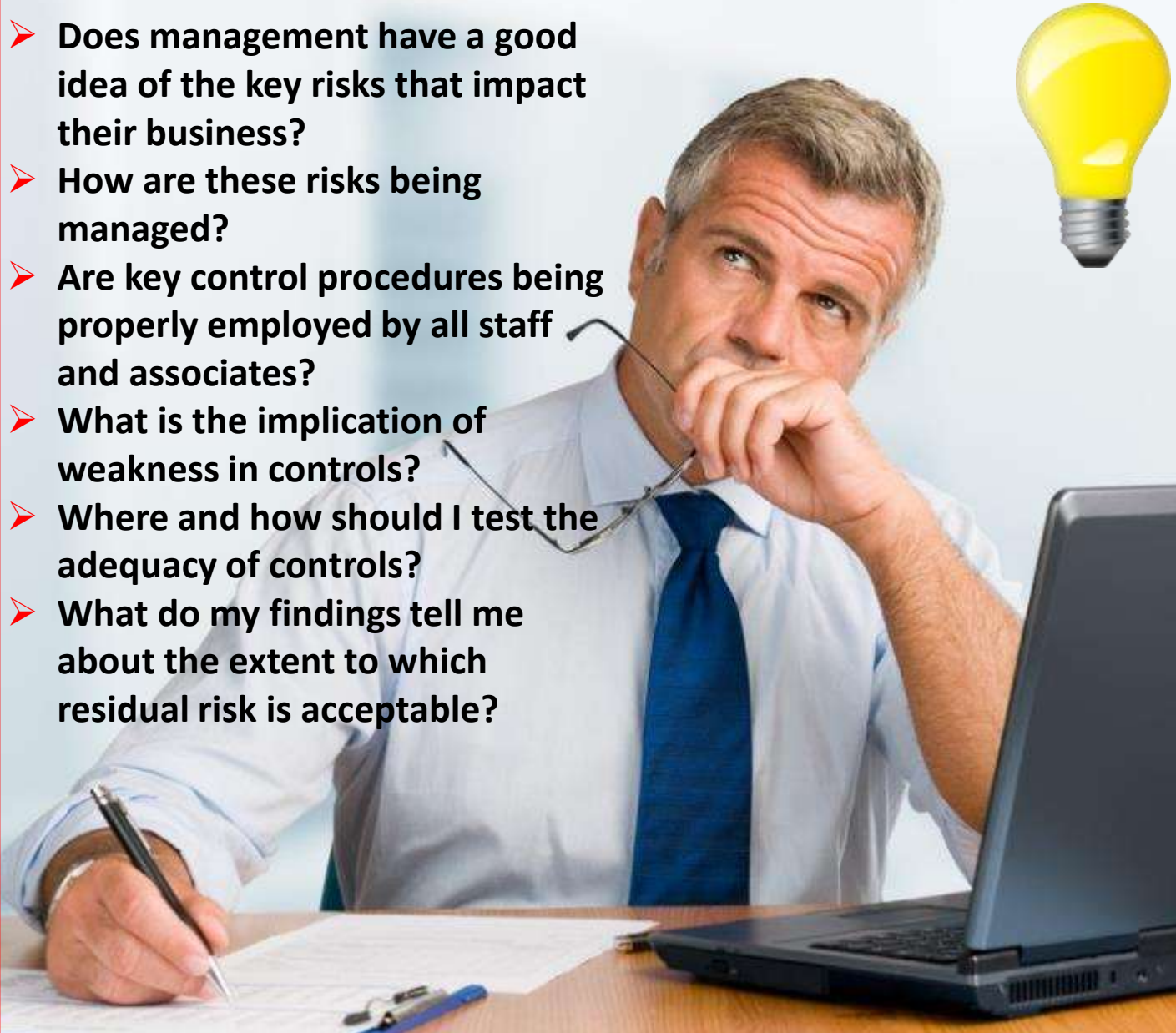
Planning			Fieldwork			Reporting		
REF	RISK	RISK ASSESS MENT	RISK MITIGATION & CONTROLS	TEST RESULTS	RESIDUAL RISK IMPACTS	REQUIRED ACTION	RISK OWNER RESPONSE	REVIEW

Re-Cap Your Case Study

Introduction to Internal Auditing

2300 Performing the Engagement
Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.

Planning			Fieldwork			Reporting		
REF	RISK	RISK ASSESSMENT	RISK MITIGATION & CONTROLS	TEST RESULTS	RESIDUAL RISK IMPACTS	REQUIRED ACTION	RISK OWNER RESPONSE	REVIEW

EVIDENCE SCHEDULES		
REF	SOURCE	DETAILS

INCIDENT REPORTS
Objective
Tests Carried out
Results
Impact on Investigation

OFFICE PROCEDURES BREACHES
Objective
Tests Carried out
Results
Impact on Investigation
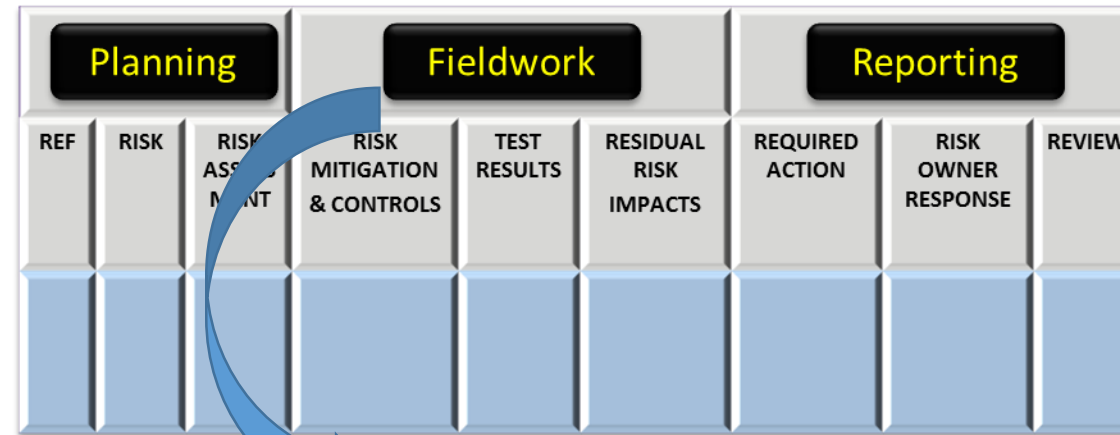
INTERVIEW RECORDS

DOCUMENT ANALYSIS
Objective
Tests Carried out
Results
Impact on Investigation

Introduction to Internal Auditing

Let's return to the case study and have a look at ascertainment.

The lead auditor established the following:

1. The fraud policy - a copy of the latest version was obtained and examined. It was found to cover:

- **Definition of fraud.**
- **Roles and responsibilities.**
- **Links to code of ethics.**
- **Links to staff discipline.**
- **Fraud detection and red flags.**
- **Fraud prevention.**
- **Fraud detection.**
- **Where to go to for advice.**
- **Whistleblowing procedure.**
- **Fraud response plan; what to do if presented with an allegation.**

The Fraud Response Plan was examined.

Introduction to Internal Auditing

2. Fraud Response Plan - this was found to contain details of:

- **Who receives reports of any suspicions of fraud or irregularity.**

- **How fraud should be investigated (e.g. Special team, designated staff).**

- **How to secure evidence in a legally admissible form.**

- **When and how to contact Police.**

- **How to initiate recovery/ restitution action.**

- **Who else to contact for advice.**

BCT

The formulation of the policy and updating procedure was described by the financial controller and documented by the auditor as a simple diagram.

Introduction to Internal Auditing

financial controller - sponsor

external consultant

board approval

directors' input

Corporate Fraud Policy

Legal advice

HR section review

issued to new staff

updated every two years

BCT

The control evaluation:

➢ Key risks that have been rated high in terms of impact and likelihood, before controls are applied - Key risks & Ratings.

➢ These risks drive the evaluation in terms of controls that are in place to mitigate the risks - Key Controls column.

➢ The auditor's initial evaluation of these control measures - Initial Evaluation column.

➢ Which tests should be applied to assess the reliability of these controls and the impact of non compliance and general weaknesses through poor controls.

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS

The testing column represents the test strategy. Test schedules will be prepared and performed and the results summarized and entered back onto the internal control evaluation schedule. After which, this Schedule will then contain the audit opinion and recommendations - that will then feed into the management action plan.

Control Objective (1) To ensure that all employees understand fraud risk management. Having established the process for preparing, updating and disseminating the fraud policy, the auditor evaluated the existing arrangements through the use of Internal Control Evaluation Schedules. Testing comes next and this stage of the audit is based on implementing the testing strategy derived from the Risk assessed Control Evaluation. For a larger version see the next page.

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
1.1. Failure to formulate a fraud policy. (rated 21)	1.1 Board requirement that fraud standard is prepared	Not followed up by the Board	1.1 Examine board position and check that the reviewed fraud policy is discussed	
1.2. Failure to disseminate fraud policy (rated 19)	1.2 Provision of policy to new staff	Okay for new staff	1.2 Check that new staff receive the policy	
1.3 Policy does not address key issues adequately (rated 15)	1.3 Update each two years	Time period may be sufficient	1. 3 Assess current policy against best practice guidelines	
1.4 Staff not aware of their roles and responsibilities (rated 20)	1.4 Fraud policy mentioned in staff handbook	Okay	1.4 Survey staff to assess the level of understanding among employees	

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Introduction to Internal Auditing

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1.2. Failure to disseminate fraud policy (rated 19)	1.2 Provision of policy to new staff	Okay for new staff	1.2 Check that new staff receive the policy	
1.3 Policy does not address key issues adequately (rated 15)	1.3 Update each two years	Time period may be sufficient	1. 3 Assess current policy against best practice guidelines	
1.4 Staff not aware of their roles and responsibilities (rated 20)	1.4 Fraud policy mentioned in staff handbook	Okay	1.4 Survey staff to assess the level of understanding among employees	

Control Objective (2)
To ensure that all suspicions of fraud and irregularity are reported and properly investigated.

Check the next page for a full size version.

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
2.1. Staff unsure of what action to take if they come across suspicions of wrongdoings. (rated 18)	2.1 Response plan within policy contains advice.	Insufficient detail and advice on this matter	2.1(a) Assess fraud policy for adequate detail on roles 2.1(b) Include relevant question in staff survey	
2.2. Responsibility for receiving allegations unclear (rated 15)	2..2 Financial controller is nominated officer.	May be in-appropriate	2.2 Check competencies for this role & whether part of Financial Controller's job profile 2.3(a) Test views in the survey & carry out interviews. 2.3(b)	
2.3 Culture of non reporting in place impairs procedure (rated 19)	2.3 No specific controls.	Apparent weakness	Review past frauds and assess whether they could have been reported earlier	
2.4 Evidence damaged due to inappropriate response to allegation (rated 20)	2.4 Fraud policy states that staff should not conduct investigations	Okay	2.4 Review recent frauds and assess whether evidence treated properly at the outset	

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Introduction to Internal Auditing

BCT

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
2.1. Staff unsure of what action to take if they come across suspicions of wrongdoings. (rated 18)	2.1 Response plan within policy contains advice.	Insufficient detail and advice on this matter	2.1(a) Assess fraud policy for adequate detail on roles 2.1(b) Include relevant question in staff survey	
2.2. Responsibility for receiving allegations unclear (rated 15)	2..2 Financial controller is nominated officer.	May be in-appropriate	2.2 Check competencies for this role & whether part of Financial Controller's job profile	
2.3 Culture of non reporting in place impairs procedure (rated 19)	2.3 No specific controls.	Apparent weakness	2.3(a) Test views in the survey & carry out interviews. 2.3(b) Review past frauds and assess whether they could have been reported earlier	
2.4 Evidence damaged due to inappropriate response to allegation (rated 20)	2.4 Fraud policy states that staff should not conduct investigations	Okay	2.4 Review recent frauds and assess whether evidence treated properly at the outset	

Control Objective
(3) To ensure that appropriate action is taken after the investigation has been completed.
Each of these tasks should be carried out in the most efficient and effective way. In fact, the audit involved setting a precise test objective for each of the tasks in question. Not all these tests are shown here, as extracts only will provide an idea of how this stage of the audit was done.

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
3.1. Staff disciplinaries not conducted to terminate staff involved in fraud (rated 23)	3.1 Disciplinary code calls for dismissal for fraud	Okay	3.1 Review recent frauds and assess disciplinary action taken	
3.2. Criminal charges not brought against internal and external fraudsters (rated 25)	3.2 No policy of prosecutions as each case is considered on its merits	Apparent weakness	3.2 Review recent frauds and assess charges brought	
3.3 Lost funds that could be subject to restitution not recovered (rated 20)	3.3 No specific mention in fraud policy	Apparent weakness	3.3 Review recent frauds and assess whether restitution are managed	
3.4 Lessons not learnt from frauds in terms of improved controls (rated 22)	3.4 No specific mention in fraud policy	Apparent weakness	3.4 (a) Review recent internal and external frauds and allegations - assess whether controls have been improved 3.4(b) Assess whether general fraud intelligence from the business sector is used to improve controls	

BCT

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
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We turn now to a test schedule for Control Objective 2. The corporate HR database 10,500 employees. The following tasks were carried out:
Database downloaded and sorted into two groups. Two questionnaires were designed, one for the first group of new staff and the other questionnaire for the second group of employees (staff over six months in post). See next page for larger version of our table.

TEST PLAN	IRaC REF	DETAILED TEST DESCRIPTION	RESULTS
2.1(a) Assess fraud policy for adequate detail on roles 2.1(b) Include relevant question in staff survey 2.2 Check competencies for this role & whether covered by Financial Controller 2.3(a) Test views in the survey & carry out interviews. 2.3(b) Review past frauds and assess whether they could have been reported earlier 2.4 Review recent frauds and assess whether evidence treated properly at the outset		Compare current policy with best practice guidance from the IIA and CIPFA. Extract aspects of the current policy that are weak on role definition Question for staff survey; has your role and responsibility in respect of fraud detection, prevention and response to allegations been made clear? And If so how was this achieved? Examine job detail of financial controller (FC) and assess whether it provides adequate coverage of competencies required to be the main representative on fraud issues. Obtain FC's views on this point Question for staff survey; has your responsibility for reporting suspicions of fraud and abuse been made clear? And if so how was this achieved? Examine the files of last three fraud allegations that have been recorded and assess whether the reporting system has operated effectively Examine the files of the last three frauds and assess whether the response was managed to protect the available evidence	Role of respective parties in the organization well defined with sufficient levels of detail (working paper 7.12) Staff have a poor understanding of their roles and only 10% of employees in post over six months could remember the policy or had a copy readily available. 25% of new employees (in post under six months) looked at the fraud policy in their staff handbook (working paper 7.05) No mention of responsibility for managing the corporate fraud policy (WP 7.21) Financial Controller has no interest in retaining this role (WP 7.27) 80% of staff surveyed had been given no information on the whistleblowing procedures (WP 7.05) One of the three frauds examined was not reported earlier because the staff in question did not realize such a facility existed (WP 7.08) No documentary proof of poor management of evidence at early stage of during the investigation (WP 7.14)

Group 01 employees in post less that six months (500 staff).

Group 02 employees in post for six months or more (10,000).

BCT

TEST PLAN	REF	DETAILED TEST DESCRIPTION	RESULTS
2.1(a) Assess fraud policy for adequate detail on roles		Compare current policy with best practice guidance and extract aspects of the policy that are weak on role definition	Role of respective parties in the organization well defined with sufficient levels of detail (working paper 7.12)
2.1(b) Include relevant question in staff survey		Question for staff survey; has your role and responsibility in respect of fraud detection, prevention and response to allegations been made clear? And If so how was this achieved?	Staff have a poor understanding of their roles and only 10% of employees in post over six months could remember the policy or had a copy readily available. 25% of new employees (in post under six months) looked at the fraud policy in their staff handbook (working paper 7.05)
2.2 Check competencies for this role & whether covered by Financial Controller		Examine job detail of financial controller (FC) and assess whether it provides adequate coverage of competencies required to lead on fraud issues. Obtain FC's views	No mention of responsibility for managing the corporate fraud policy (WP 7.21)
2.3(a) Test views in the survey & carry out interviews.		Question for staff survey; has your responsibility for reporting suspicions of fraud and abuse been made clear? And if so how was this achieved?	Financial Controller has no interest in retaining this role (WP 7.27) 80% of staff surveyed had been given no information on the whistleblowing procedures (WP 7.05)
2.3(b) Review past frauds and assess whether they could have been reported earlier		Examine the files of last three fraud allegations that have been recorded and assess whether the reporting system has operated effectively	One of the three frauds examined was not reported earlier because the staffer did not realize this facility existed (WP 7.08)
2.4 Review recent frauds and assess whether evidence treated properly at the outset		Examine the files of the last three frauds and assess whether the response was managed to protect the available evidence	No documentary proof of poor management of evidence at early stage of during the investigation (WP 7.14)

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Study

Introduction to Internal Auditing

Extract - questionnaire for group one:

FRAUD POLICY AUDIT -
Dear abc ,
You have been chosen at random to take part in a survey on level of awareness of the fraud policy. This information will be confidential. This is not part of the whistle blowing policy. We appreciate your assistance and ask you to return the survey by xx 200x. For further information about this survey please do not hesitate to contact Fred Fredricks on xxx.

Audit; *Corporate Anti-Fraud Policy*

Test Objective form; REF *56*

Objective: To assess staff awareness of the published Fraud Policy

Approach:

Download employee database and extract two random samples of employees in post less that six months (DB 1) and those in post six months and over (DB 2)

Sample:

Judgment based on small number to avoid excessive time;

Database 1 - 10,000 employees: judgment sample of 100 employees selected by a random number generator and names (phone &e-mail contacts) selected for survey

Database 2 - 500 employees:

Judgment used to select sample of 20 new staff.

Results (extracts):

2.1(b) Staff has a poor understanding of their roles and only 10% of employees in post over a six months could remember the policy or had a copy readily available. 25% of new employees (in post under six months) have looked at the fraud policy in their staff handbook. (working paper 7.05)

2.3 (a) 80% of staff surveyed had been given no information on the whistleblowing procedures (WP 7.05)

Etc.....

Signed; Lead Auditor   Date

Reviewed; Audit Manager   Date

Extracts from the Survey:

Extracts from the Survey:

Q1. Have you seen the fraud policy issued
by the company?   Yes   No

Q.2. Are you aware of the contents of this policy?   Yes   No

Q.3. Has your role and responsibilities regarding fraud
prevention and detection been made clear to you?   Yes   No

Q.4 Please describe your understanding of your role in fraud
prevention and detection.

And so on...

BCT

The Internal Control Evaluation Schedule (ICE) records a summary of all that has happened during the audit and ICE will indicate:
• What the system is trying to achieve - the systems and control objectives.
• The operational risks identified and assessed that impact on the ability to achieve these objectives.
• The test strategy and summary results.
• The audit opinion and associated recommendations.

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
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2.2. Responsibility for receiving allegations unclear (rated 19)	2..2 Financial controller is nominated officer	may be in-appropriate	2.2 Check competencies for this role & whether covered by Financial Controller	Financial controller post is not equipped to take responsibility for fraud policy. **REC**: Re-assign role, could be part of new head of compliance role that is now being developed.
2.3 Culture of non reporting in place impairs procedure (rated 20)	2.3 No specific controls	Apparent weakness	2.3(a) Test views in the survey & carry out interviews. 2.3(b) Assess whether past frauds could have been reported earlier.	Little awareness of whistleblowing procedures and no specific encouragement to use the arrangements **REC**: Build this into fraud awareness seminars for staff.
2.4 Evidence damaged due to inappropriate response to allegation (rated 20)	2.4 Fraud policy states that staff should not conduct investigations	Okay .	2.4 Review recent frauds and assess whether evidence treated properly at the outset.	Once started , fraud investigations are carried out to high standards, from the outset. **REC**: n/a

BCT

KEY RISKS & RATING	KEY CONTROLS	INITIAL EVALUATION	TEST PLAN	OPINION & RECOMMENDATIONS
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We come now to the reporting stage.

Make sure your report is both accurate and fair.

➤ **Have I done enough to meet my audit objectives?**
➤ **Have I spoken to management about my findings?**
➤ **Can I extract all the required information from my fieldwork summary for my report?**
➤ **Have I met all quality standards on performing audit work?**
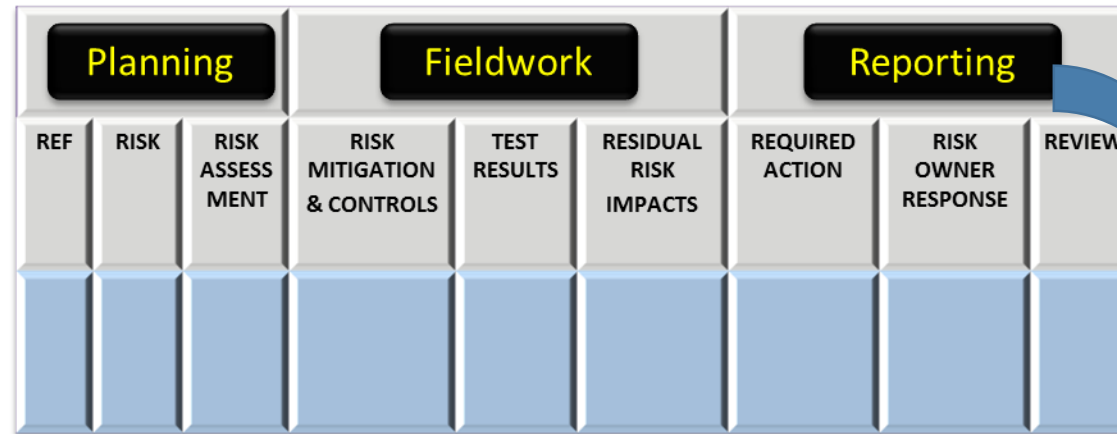➤ **Am I now able to prepare my formal audit report that is both fair and accurate?**

Introduction to Internal Auditing

Planning			Fieldwork			Reporting		
REF	RISK	RISK ASSESSMENT	RISK MITIGATION & CONTROLS	TEST RESULTS	RESIDUAL RISK IMPACTS	REQUIRED ACTION	RISK OWNER RESPONSE	REVIEW

2410 Criteria for Communicating
Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans.

Planning			Fieldwork			Reporting		
REF	RISK	RISK ASSESSMENT	RISK MITIGATION & CONTROLS	TEST RESULTS	RESIDUAL RISK IMPACTS	REQUIRED ACTION	RISK OWNER RESPONSE	REVIEW

EVIDENCE SCHEDULES		
REF	SOURCE	DETAILS

EVIDENCE SCHEDULES		
REF	SOURCE	DETAILS

EVIDENCE SCHEDULES		
REF	SOURCE	DETAILS

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Your Case
Study

The auditor needs to report the results of the audit work. In an e-business context, this may consist of a verbal briefing and short schedule (not unlike the ICE) that says what was considered, what risks were assessed, what the auditor found and what can be done to improve risk management and control.

But, the traditional approach is to prepare a formal audit report and this report becomes a published document available to authorized parties.

Introduction to Internal Auditing

CORPORATE FRAUD POLICY

LIST OF CONTENTS	PARA
EXECUTIVE SUMMARY AND ACTION PLAN	1-10
INTRODUCTION TERMS OF REFERENCE AND WORK CARRIED OUT	11 - 14
DETAILED FINDINGS AND RECOMMENDATIONS	15 - 45
APPENDICES	
TERMS OF REFERENCE	APPENDIX A
FRAUD POLICY	APPENDIX B
FRAUD RESPONSE PLAN	APPENDIX C
STAFF SURVEY	APPENDIX D

BCT

This is one version of the Executive Summar, with extracts only for Control Objective 2.

EXECUTIVE SUMMARY

INTRODUCTION

A review of the corporate fraud policy was requested by the Audit Committee at their meeting of xx 200x and included in the audit plans for 20xx/20yy. The audit was carried out during the period xxx - yyy 200x using the risk based systems approach to assurance audits.

The terms of reference for the audit were agreed with the Financial Controller, who is the process owner for the fraud policy, to review the existing arrangements for ensuring that:
• Staff understand the corporate anti-fraud policy and their roles and responsibilities in respect of fraud prevention, detection and response.
• There are suitable measures for reporting suspicions of fraud and irregularity.
• There is a capacity to investigate fraud and irregularity to professional standards.

It was agreed that a formal audit report will be issued to the audit committee, CFO and Financial Controller.

The audit did not include any steps to detect fraud or investigate specific allegations, and only concerned the adequacy and effectiveness of the fraud policy. A description of the work carried out is found in the main body of the report.

We extend our thanks to all those staff who assisted us in the performance of the audit.

Introduction to Internal Auditing

Audit report executive summary.

FINDINGS

(Control Objective 2 only)

The fraud policy is well designed and covers all important aspects of fraud prevention, detection and response, and is regularly updated by a specialist external consultant.

The Financial Controller post is not equipped to take responsibility for fraud policy. The postholder has no available resource which allows him to disseminate the policy to employees, apart from its inclusion in the staff handbook.

The fraud policy is not widely publicized and many employees have a poor understanding of their roles and responsibilities under the policy. This impairs the effectiveness of fraud risk management and the company's whistleblowing procedures.

Introduction to Internal Auditing

Audit report opinion and recommendations.

AUDIT OPINION
(Control Objective 2 only)

Fraud is seen by the board as one of their top ten risks. Fraud investigations are conducted in a professional manner once problems concerning irregularity have come to light. However, the degree to which the fraud policy is understood by employees across the organization is inadequate. This means the risk of fraud in terms of prevention and detection is not being managed to an acceptable level. The audit recommendations are designed to address the various shortcomings and are attached as part of the action plan, agreed with management.

AUDIT RECOMMENDATIONS
(Control Objective 2 only)

A program of staff awareness seminars should be established to ensure employees are aware of the fraud policy and build the risk of fraud into their risk assessment workshops where appropriate.

The responsibility for the fraud policy should be assigned to the post of Compliance Officer that is currently under development. Responsibility for the fraud policy should be shared between the Financial Controller and Legal Officer until the Compliance Officer is appointed.

The management action plan based on this audit has been agreed with all relevant parties and is attached.

Introduction to Internal Auditing

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The management action plan based on this audit has been agreed with all relevant parties and is attached.

AUDIT RECOMMENDATION	MANAGEMENT ACTION	RESPONSIBLE PERSON	EVALUATION AND TARGET DATES
1. A program of staff awareness seminars should be established to ensure employees are aware of the fraud policy and build the risk of fraud into their risk assessment workshops where appropriate.	1. The chair of the audit committee has asked that internal audit conduct these seminars, the sponsor being the CFO.	CFO and Chief Audit Executive.	The awareness seminars will be developed next month and piloted in the Finance section and rolled out to the other support services, then operations over the next six months. The staff awareness survey will be repeated in six months time to re-assess the level of awareness after the seminars have been concluded.
2. The responsibility for the fraud policy should be assigned to the post of Compliance Officer, currently under development. Responsibility for the fraud policy should be shared between the Financial Controller and Legal Officer until the CO is appointed.	2. Agreed as recommended. The responsibility will become part of the Compliance Officer (CO) job requirement that is currently being prepared.	Head of Personnel and chair of the Appointments Panel for new CO post.	Director of Human Resources will report progress to the board at next meeting. Compliance Officer should be appointed and in post by the end of the year.

Introduction to Internal Auditing

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AUDIT RECOMMENDATION	MANAGEMENT ACTION	RESPONSIBLE PERSON	EVALUATION AND TARGET DATES
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Spencer's eGuides

We close this Case Study with a quote from an interesting Practice Guide.

Planning			Fieldwork			Reporting		
REF	RISK	RISK ASSESS MENT	RISK MITIGATION & CONTROLS	TEST RESULTS	RESIDUAL RISK IMPACTS	REQUIRED ACTION	RISK OWNER RESPONSE	REVIEW
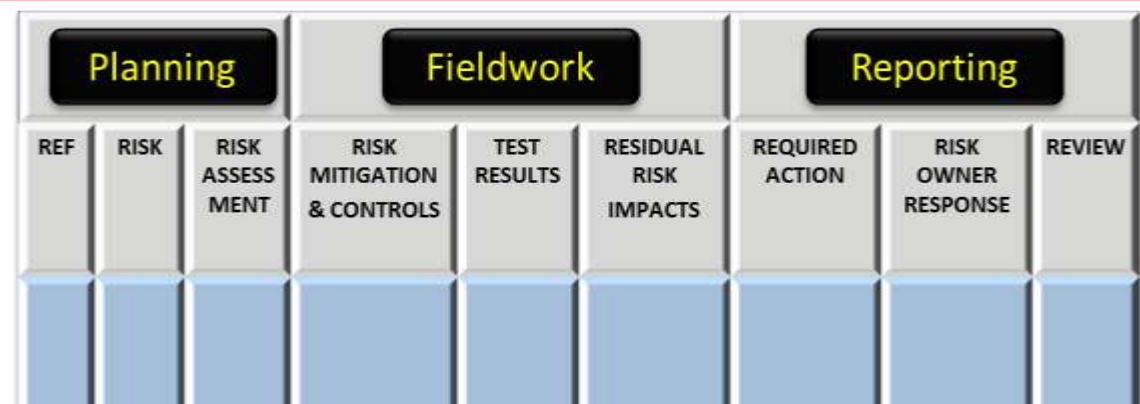
IIA PRACTICE GUIDE: Formulating and Expressing Internal Audit Opinions (2009)
* An opinion on the organization's overall system of internal control over financial reporting (macro).
* An opinion on the organization's controls and procedures for compliance with applicable laws and regulations, such as health and safety, when those controls and procedures are performed in multiple countries or subsidiaries (macro).
* An opinion on the effectiveness of controls such as budgeting and performance management, when such controls are performed in multiple subsidiaries and coverage comprises the majority of the organization's assets, resources, revenues, etc. (macro).
* An opinion on an individual business process or activity within a single organization, department, or location (micro).
* An opinion on the system of internal control at a subsidiary or reporting unit, when all work is performed in a single audit (micro).
* An opinion on the organization's compliance with policies, laws, and regulations regarding data privacy, when the scope of work is performed in a single or just a few business units (micro).

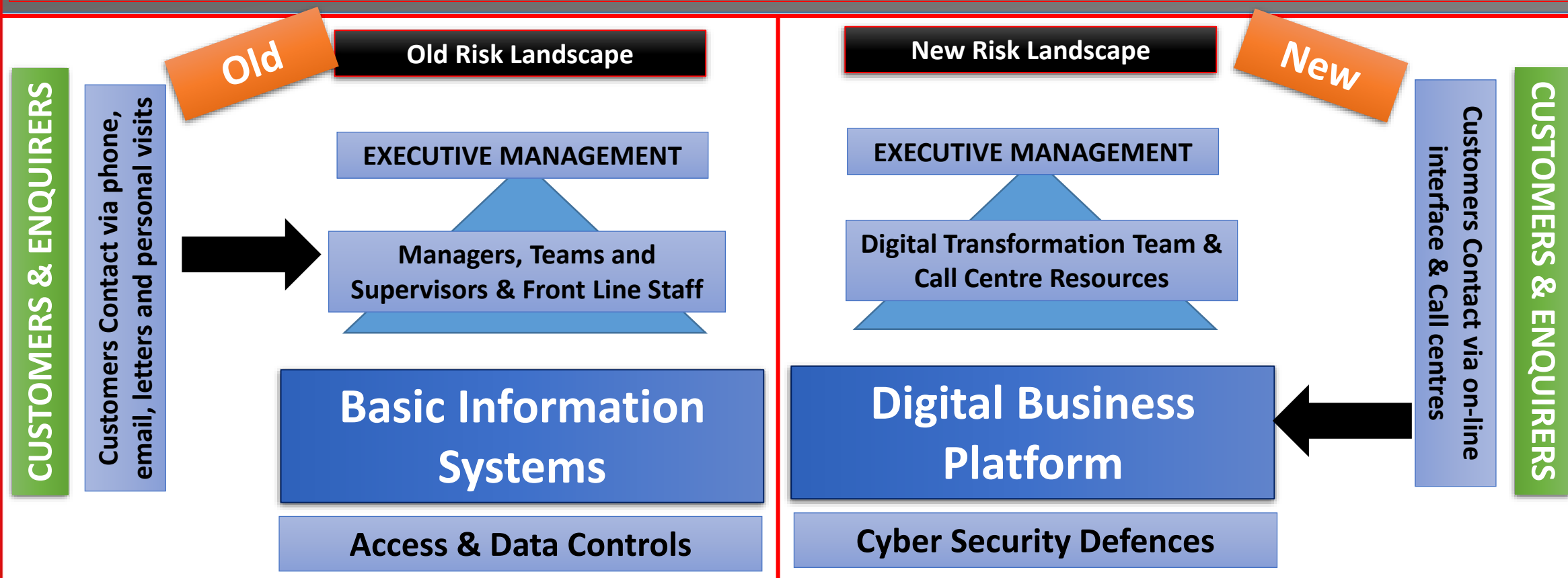Introduction to Internal Auditing

Spencer's eGuides

We cannot leave your Tutorial without mentioning the growing threat of Cyber Risks. And the need for good cyber security and internal audit coverage.

The next page provides two simple models that give one explanation of the way business models are changing to mean cyber crime is now such a growing risk.

The models show the old risk landscape on the left and the new one on the right. Turn to the next page and have a look.


Introduction to Internal Auditing

Business risk changes as the risk landscape evolves and old business models quickly transform into new businesses where the customer interacts directly with the business as well as via front line teams. Customers are getting used to working with automated processes and accessing their personal accounts to amend data, make payments and authorize their own transactions. This is where cyber fraud comes to the fore where criminals can use the Digital Platform to commit fraud. Cyber security is now a key control to stop outsiders gaining unauthorized access which needs to be assessed and reassessed on a regular basis.

Introduction to Internal Auditing

Old

Old Risk Landscape

New Risk Landscape

New

CUSTOMERS & ENQUIRERS

Customers Contact via phone, email, letters and personal visits

EXECUTIVE MANAGEMENT

Managers, Teams and Supervisors & Front Line Staff

Basic Information Systems

Access & Data Controls

EXECUTIVE MANAGEMENT

Digital Transformation Team & Call Centre Resources

Digital Business Platform

Cyber Security Defences

Customers Contact via on-line interface & Call centres

CUSTOMERS & ENQUIRERS

Here are some questions about this risk that may be included in your audit:

1. What type of risks are coming on line?
2. How do these risks materialize?
3. What are our legal obligations?
4. What do these risks entail in terms of impact on operations and the likelihood that they will materialize?
5. What does the IT security strategy currently do about these risks?
6. What do we do when there is an adverse event?
7. How can we stay on top of things?
8. Is our entire workforce mobilized against these new and emerging threats?
9. Do we need more awareness, resources and expertise to tackle these threats?
10. Where do we stand in terms of our competitors in the way we are meeting these new challenges?

If you want more on this topic then have a look at the next few pages.

Introduction to Internal Auditing
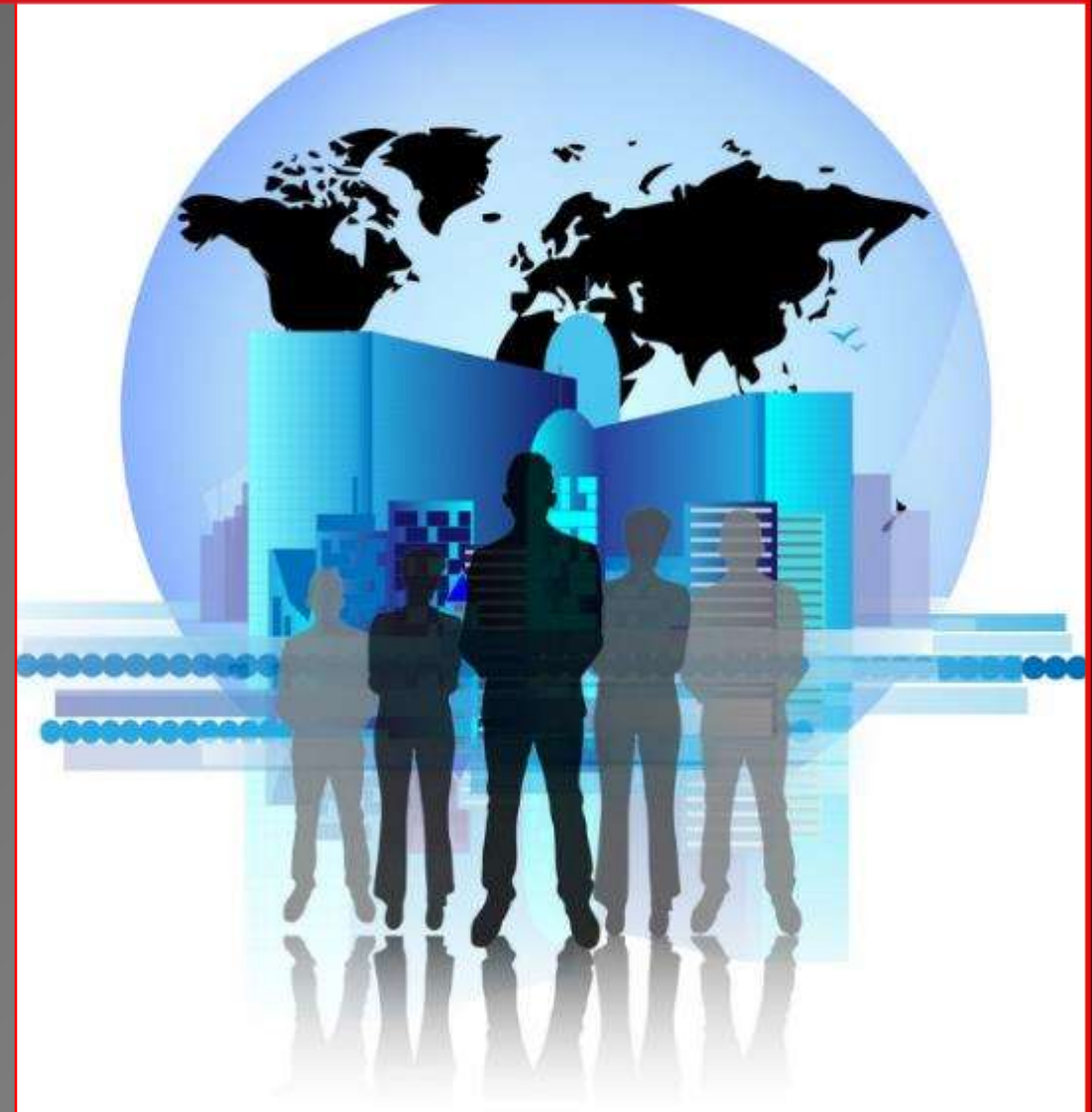
Cyber Security (Page 1 of 6)

The unstoppable growth in e-business means rules on encryption, third party access and bring-your-own-device, are all important as information control strategies must keep pace with new developments. Cyber security is now firmly on the list of top ten risks for most boards of directors in most organizations.

And the internal auditor needs to keep up to ensure that audit work can cope with complex new systems that are streamlined, fast moving and open to abuse - in terms of hacking, ransomware, data error and even lost data, if not properly protected. Information that is used over networks can be hacked. Since most organizations are moving away from employee only systems access where users, partners, associates and customers can access their accounts and view and even update their data means sensitive information can be accessed by external parties. These parties are meant to be authorized users and as long as they meet the systems protocols they will be given defined privileges. Since the system believes the user is authorized.

Meanwhile people are working away from their offices and are using their own devices, including smart phones to access their work databases and emails. In the same way, customers use their phones to engage with their retail businesses, banks and other service providers. Collaborative working using various shared media is now the norm and most large IT providers have a version of shared links which could hold sensitive data that belongs to a business, whether large or small.

The aim is to allow associates to access work areas creating major business opportunities. But alongside these opportunities comes threats from deceitful individuals or gangs. The response to cyber risks will be the very same as other risks in terms of the way they should be addressed.

In May 2017 so called 'Wannacry' hackers broke into 230,000 computers owned by the UK's National Health Service. The hackers used ransomware to encrypt files so they could no longer be accessed. They then demanded a fee to unlock these files as a form of blackmail.

Cyber Security (Page 2 of 6)

We can consider cyber security by encouraging the board to ensure the organization is able to address ten basic questions:

1. What type of risks are coming on line?

We have already mentioned some of the risks with networked systems and cloud computing is another area where organizations have no physical security over their data since it resides on-line - but also sits on someone's desktop computer and is backed up remotely. Encouraging customers to access and update their personal data without intervention from staff is now the norm in many organizations and again there are risks in assuming only authorized people can get into the systems. Threats such as ransomware, malicious software hidden in email links and botnets that launch denial-of-service attacks are now much more frequent. They may be general or targeted to a particular organization where cyber-crime and even cyber-espionage can raise its ugly head. On a wider front, cyber-warfare is something that all governments are concerned about as cyber security merges with national security. And there are the obvious links to out-and-out terrorism. A dangerous, if less severe threat arises where these coordinated cyber attacks are aimed at undermining governments or political parties or even seeking to influence an election. Corporate networks and internet connections create risks to cyber security that must be understood and managed. Cyber security is now a huge concern as one case involving the US based consumer credit agency, Equifax found when a cyber attack in July 2017 affected some 143 million customers. The firm immediately employed a cyber security expert and referred the matter to the police.

2. How do these risks materialize?

This question is about keeping up to date with the latest techniques used by external players as they attempt to hack systems or cause disruption to business operations through say denial of service attacks. A risk is only a risk if it is known about and as criminals become more sophisticated, the perfect crime is committed in a way that means it is not detected at all. Some hackers target organizations who are seen as unethical or who have been involved in a scandal that stimulates protest groups to take direct action to undermine them. Corporate assets such as corporate and personal data, services, goods and finances are all at risk if they can be accessed by unauthorized parties.

Cyber Security (Page 3 of 6)

3. What are our legal obligations?

The laws and regulations on data privacy mean organizations can be fined or sanctioned by allowing unauthorized access or holding inaccurate data. This means corporate policies should make clear what 'can' be done, what 'should' be done and what 'must' be done in terms of the way their information systems are used and ensure there is good compliance. There may also be a legal requirement to perform due diligence on companies who are being used as business partners before sharing sensitive data with them. The General Data Protection Regulation will hit the UK in 2018 and tightens up many requirements including the need to ensure consent from individuals whose data is held, along with tougher fines for non compliance with new rules on the way data is stored and used and how breaches are reported.

4. What do these risks entail in terms of impact on operations and the likelihood that they will materialize?

This is the basic risk assessment that should be ongoing. Frequent vulnerability assessments and threat identification should be undertaken and a consideration of risks such as bugs that are not being fixed properly or speedily. One useful policy is to prioritise security controls when undertaking change programs and updates that allow malicious code to get in, as this is often where problems creep in. Whenever a system is updated it should not be signed off until it has passed a cyber security review.

5. What does the IT security strategy currently do about these risks?

Control Objectives for Information and Related Technology (COBIT) is a framework created by ISACA that enables managers to bridge the gap between control requirements, technical issues and business risks. Many companies are now revamping their cyber security strategy as part of their overall IT security strategy. After customer data was stolen from the Cex online games store which affected up to two million customers, the retailer urged customers to change their passwords. Although the stolen credit card details were encrypted and likely to have expired. In a statement made in August 2017 the company said it had employed a cyber-security specialist to review its systems to prevent such a 'sophisticated breach' from happening again. Some frauds are very old fashioned and do not rely on cyber breaches at all. For example, a British Broadcasting Corporation reporter posed as a Royal Mail postman in 2017 and discovered a fraud where postal workers were being offered £1,000 a week to steal letters containing credit cards. Some 1,759 Royal Mail workers were convicted of theft between 2007 and 2014.

Cyber Security (Page 4 of 6)

6. What do we do when there is an adverse event?

The best laid plans can still mean a breach occurs. And it is the way management deal with this breach that could well determine whether the corporate reputation remains intact, or even enhanced. A sound Business Continuity Management Plan is a good start place for dealing with cyber security breaches. There will need to be a rapid incident response plan that swings into action that involves tasks such as:

➢ Task force swings into action. Including the Chief Information Officer, risk owners and other nominated people.
➢ Infected areas quickly isolated. Network segmentation and firewalls will help here so that all at-risk parts can be closed down or suspended.
➢ Impact on finances, health & safety, legal compliance, critical business processes, assets and overall reputation should be assessed.
➢ Associated systems and media scanned while back ups are checked and the business continuity plan is applied.
➢ Access controls suspended, reset and reissued - say passwords and other devices.
➢ Consideration of whether any staff or associates have been compromised and appropriate action taken.
➢ Communications with suppliers, partners, associates and others who need-to-know.
➢ Systems and linked devices disinfected and relevant media sanitized and then reset or reinstated.
➢ Incident reports prepared and all official parties notified. Fines may be increased where a company tries to cover up a breach.
➢ PR exercise to report problem to users and media outlets in a proactive way with consistence messages and all staff aware of their response. The CEO of Equifax who were hacked in July 2017 spoke on a video about the response to this hack saying he should be judged on the response to this major problem.
➢ Control fixes quickly put in place to make sure one slip is one too many and the door has been firmly closed to future attacks.
➢ Longer term solutions created after the matter has been investigated and a review of whether the response was good enough.

7. How can we stay on top of things?

In one sense, cyber security can be seen as an ongoing battle. Companies and other entities seek to strengthen their defence while hackers devise more and more sophisticated ways of breaching these defences. The goal is to invest in keeping these defences strong and deterring would-be attackers so they look for weaker targets. A focus on access control is key to good defence and there should be a detailed record of who has access to what, for how long and who authorized it as well as records of access patterns and inconsistencies.

Cyber Security (Page 5 of 6)

8. Is our entire workforce mobilised against these new and emerging threats?

There should be a clear ownership of cyber risks at the highest level and leadership that pushes key messages down to the entire workforce. This has a lot to do with the culture in place where personal information is seen as important and the need to protect it is fully recognized. One weak point in the system is where some staff allow access or do not challenge odd requests/patterns, that can be exploited by the cyber criminal. Cyber risks do not only relate to corporate networks but they can also arise where work phones, video conferencing systems, smart TVs, Bluetooth and mobile devices, smart phone emails/messages and faxes are hacked and sensitive data obtained by unauthorized parties. The entire workforce should be told that they must guard their workstation and observe screen locks, password controls, use of mobile phones to photograph screens, shoulder surfing and anything else that may compromise data security. A workstation may be redefined as any access point wherever located and through whatever device the employee is using. Another high risk area is privileged accounts access for senior staff and here more controls and more monitoring is required to ensure these facilities are not abused. One solution is to employ a board level Chief Information Security Officer who is properly aligned to the business role of the entity since IT is no longer a device that sits in the basement. It is a strategic resource, brimming with threats and opportunities, that could make or break the new automated business models most organizations are migrating towards.

9. Do we need more awareness, resources and expertise to tackle these threats?

Staff training and the recruitment of experts is a key consideration in cyber security. Staff will need to understand the way data is classified and the way each type is handled when dealing with colleagues and outsiders. One crucial issue is a whistleblowing system where staff can report any concerns with the way information is being used or weaknesses that they have observed. Staff should also be trained about the dangers of social media and criminals who use social engineering, including 'chance meetings' at social events to 'get inside' employees and obtain what should be confidential data such as their passwords. Telling social contacts about work responsibilities is a sure way to attract the attention of criminal gangs. There are huge risks associated with USB drives and laptops that are taken off site and which contain loads of sensitive data. In future, street robbers may leave the victims cash, wallet, cards and valuables and simply steal any phone sim cards and USB sticks to maximize their gain from the personal data, emails, automated on-click passwords and browsing history as cyber crime pays much more than old fashioned theft. Poor patch and anti-virus update management may mean some business systems become more vulnerable to attack.

Cyber Security (Page 6 of 6)

10. Where do we stand in terms of our competitors in the way we are meeting these new challenges?

To stay ahead an organization needs to keep up and then move away from the competition. Since comparison web sites make it more and more difficult to sell something based solely on the lowest price, some consumers are looking for the value-add when choosing their supplier. And some of this value add may sit within the way a company protects its customers' data, even if they do not offer the lowest price. In the past, it was argued that people needed to pass two out of three tests to access and use an on-line service:

➢ Something one knows, such as a password or answer to a security question.

➢ Something one has, such as a passport, physical token or an identity card.

➢ Something one is, such as biometric data, like a fingerprint, iris or face scan.

It may be the case that good organizations find a way of using all three measures to ensure the person who is authorized for the system should be authorized. Moving from access controls, one challenge is to merge IT security into a much wider IT Governance policy that is a key part of the overall corporate governance arrangements which lie at the feet of the board of directors. We can summarise the questions that the board may want to ask when considering cyber security:

1. What type of risks are coming on line?
2. How do these risks materialize?
3. What are management's legal obligations?
4. What do these risks entail in terms of impact on operations and the likelihood that they will materialize?
5. What does the IT security strategy currently do about these risks?
6. What does management do when there is an adverse event?
7. How can management stay on top of things?
8. Is the entire workforce mobilised against these new and emerging threats?
9. Does management need more awareness, resources and expertise to tackle these threats?
10. Where does management stand in terms of our competitors in the way they are meeting these new challenges?

If you want to have another look at specific topics,

please go to page 6 and

check the List of Contents.

Goodbye.

Now you have completed your Tutorial you may wish to surf the internet for further information to build on what we have covered here.

And don't forget:

We have developed a basic introductory guide to internal auditing. For authoritative guidance on this topic, please contact the Institute of Internal Auditors:

Global.theiia.org

Introduction to Internal Auditing

The End