

AUI 2601 TOPICS

1.The definition of internal auditing

Definition, IA objective, IA Focus areas, Development , Standards, IPPF

2.The functional role of internal auditing

4 Roles of management, IA assist management, IA role as advisor, IA activity as functions

3.Professional matter pertaining to internal auditing

IIA Code of ethics, Characteristics of profession, IPPF

4.The Qualifications and characteristics of an internal auditor

Qualifications and characteristics of IA

5.The purpose, authority and responsibility of an internal auditor

Authority of IA, Roles of IA, Fraud

6.Concepts relating to internal audit

Risks, Types of control

7.The internal audit process

Evidence, Phases of audit

8.Internal audit engagement procedures and tools

Working papers, Tools

9.The relationship between internal auditing and related function.

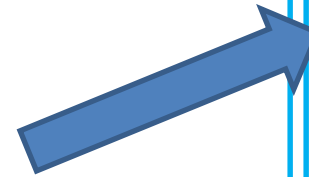
Relationships between IA and EA, audit committee, general/financial management

Background

- **CONTROLLING BODY** and the **EXECUTIVE MANAGEMENT** are responsible for establishing the organisation and then ensuring that it operates successfully.
- **BOARD OF DIRECTORS** is responsible mainly for the governance process.
- **EXECUTIVE MANAGEMENT** is responsible for conducting the risk management and control processes.
- **AUDIT COMMITTEE** is a subcommittee of the board overseeing the internal audit activity and external auditors.
- **MANAGEMENT:**
 - Set goals.
 - Plan what has to be done and what means are to be used.
 - Organise to have the necessary means/ people available at the right time.
 - Give guidance and exercise control to ensure that objectives are met.
 - Keep records of all activities so that they are able to give account of their curatorship over the interests of the stakeholders.

However management:

- Cannot perform and monitor all respects within an organisation
- Delegates duties and responsibilities
- Is not involved in the day-to-day activities



The overall objectives of an internal audit:

Main: is determined by the needs of the board and executive management, and internal auditor must ensure that these needs are satisfied by the internal audit report, which he or she submits to the board and the audit committee

IA Definition:

- Is an **independent, objective assurance** and **consulting** activity
- designed to **add value** and **improve** an organisations operations
- It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to
- **Evaluate** and **improve** the **effectiveness** of **risk management, control** and **governance processes**.

In fulfilling this challenging role, internal auditors have to provide information to management about whether:

- Only the plans approved by management have been executed or are being executed
- The anticipated results are being achieved
- The results can be improved
- Management's plans proved to be effective
- Where and how management can improve on their plans

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Analyse the definition:

- **Independent** – free from control or influence of others
- **Objective** – aim of purpose; when used as an adjective; not biased
- **Assurance** – promise or guarantee
- Assure – convince; make certain
- **Consulting** – specialist who gives professional advice
- Operation – method or procedure of working
- Systematic – Methodical; according to a plan
- Disciplined – able to behave and work in a controlled way
- Approach – begin to deal with; make a proposal or suggestion to
- **Evaluate** – find or judge the value of
- **Improve** – make or become better
- **Effectiveness** – producing the desired result
- **Risk** – hazard, for example, loss or damage
- **Control** – power to direct something; regulate
- **Governance** – government, control or authority; the action, manner or system of governing.



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Describing
internal
auditing

The main objectives of an internal audit:

Main: is determined by the needs of the board of directors and management of an organisation so as to assist them in improving the governance, risk management and control processes.



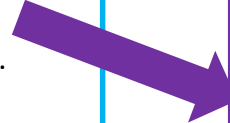
This can be achieved by:

- An interpretation of factual circumstances and events in the organisation that have been exposed by the internal auditor's examination
- Constructive and cost-effective suggestions to identify risks and to eliminate problems/ and or to improve the efficiency and effectiveness of the organisation's governance, risk management and control processes

The two main focus areas of an internal audit:

Consulting services – advisory in nature and often are conducted at the request of management. Tailored to resolve specific issues that management has identified.

Assurance services - examination and appraisal of the record-keeping and control systems relating to the administrative and financial aspects of an undertaking



Roles and activities of the Internal Auditor:

1. Independence from the normal policy-making function by only identifying and recommending areas of improvement or change
2. Examining and evaluating the goals, policy, decisions, standards, procedures and controls of management
3. Conducting special assignments requested by management where internal audit can add value through their knowledge and skills, yet remain independent and act in an advisory capacity on results of such assignments.
4. Communicating in an authoritative manner with management by means of reporting to improve and add value.

Roles and activities of the Internal Auditor:

1. Reinforcements of all systems and controls by evaluating their adequacy and application
2. Reviewing the reliability of records
3. Assisting directly with the discovery of fraud and error.
4. Assisting indirectly with the prevention of fraud and error by recommending and ensuring proper functions and controls.
5. Determining whether management policies are being complied with in all respects
6. Determining whether all applicable statutory requirements are being complied with



Misconception of internal auditing:

MAIN MISCONCEPTION:

- Internal auditing is the same as external auditing

OBJECTIVES

External Auditor:

test the underlying transactions that form the basis of financial statements.

Internal Auditor:

seeks to advise management on whether its major operations have sound systems of risk management and internal controls

1

**Describing
internal
auditing**

The development of the practice of internal auditing

Development in the USA

END OF THE 19TH CENTURY:

- The mission of internal auditing: internal security

THE PERIOD 1900 - 1920:

- Separation of planning and physical operations also contributed to the improvement of accounting controls.

THE PERIOD 1920 - 1929:

- The duties of the internal auditor were expanded to include the discovery of fraud and error.

THE PERIOD 1929 - 1940:

- Internal auditors had to ensure that every transaction was properly authorised, and correctly documented and accounted for.

THE POST – 1940 PERIOD:

- The involvement of company directors in management affairs increased, through audit committees.

Development in SA

- Internal auditing in SA has had much the same history as the rest of the world. The King Report on Corporate Governance makes it a requirement for entities adopting its recommendations to have internal audit activity.
- The new Companies Act implies that companies should be subjected to an internal audit process, although companies that are listed on the JSE Securities Exchange are required to an internal audit process

IA Definition:

- Is an **independent, objective, assurance and consulting activity** designed to **add value to and improve** an organisations operations.

Components in establishing body of knowledge for IA

- Identification of most imp disciplines of which IA must have an understanding of.
- The required level of understanding.

Elements of a profession:

1. A specialised service must be rendered to society
2. Specialised subject knowledge, which should be acquired through formal training programmes.
3. Code of ethics
4. Common Body of Knowledge
5. Professional Association
6. Publication
7. Examinations
8. Statutory recognition

2

Origin and development of IA

2 Origin and development of IA

Elements of a profession:

7. Examinations

- The institute began its certification program in 1974
- Previously, it called for candidates to pass 4 rigorous examinations
- Pass – CIA Designation

6. Publication

- IAA publishes a technical journal (Internal Auditor), as well as technical updates and books, research studies, monographs, audio-visual presentations, and other means of instruction

5. Professional Association

- Professional body represents the interests of its members and this is prescribed by many of the other requirements

8. Statutory recognition and licences

- Practice of internal auditing is not limited to licences

4. Common Body of Knowledge

- CBOK for the discipline
- This represents the minimum level of knowledge that is studied and understood, and must be mastered

1. A specialised service must be rendered to society

- A profession should provide a service to society as opposed to individual clients
- An indirect service is rendered to society in that:
 - Organisations in private sector are managed more efficiently and show greater profits
 - Public sector institutions are more efficiently managed and the taxpayer's money is utilised properly

2. Specialised subject knowledge, which should be acquired through formal training programmes.

- Not a requirement in all countries
- Many internal audit departments accept people with varying degrees of training or learning

3. Code of ethics

- Members of the IIA must subscribe to the code of ethics, and follow the Standards
- The code of ethics provides a moral framework within which individuals may practise, in representing the entire profession

Broad definition of IA according to IPPF:

Independence and objective:

Def: Independence: is the freedom from conditions that threaten the ability of the IA to carry out internal audit responsibilities in an unbiased manner.

Def: Objectivity: is an unbiased mental attitude that allows IAs to perform engagements in such a manner that they believe in their work product .

Assurance and Consulting:

Def: Assurance: An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization.

Def: Consulting: 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 IA assuming management responsibility.

Service: Focusing on assurance and consulting work, conveys a more proactive, customer-driven approach with a role to play in the control, risk management and governance activities.

Add Value and Improve operations:

Def: Value: Is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

Service: In the process of obtaining data in order to understand and assess risk, IA develop significant insight into operations and opportunities for improvement that can be beneficial to the organisation. This valuable information can be in the form of consultation, advice or other means.

Risk management process

Def: A process to identify, assess, manage, and control potential events or situations

Service: The IA activity should assist the organisation in managing risk. Assistance is provided by identifying and evaluating the organisation's exposure to risk, assessing the risk and improving the risk management process.

Control process

Def: The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

Service: The internal audit activity should evaluate the organisation's control process to determine its effectiveness and efficiency.

Governance Process

Def: The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization towards the achievement of its objectives.

Service: The IA activity should assist the organisation in achieving its goals by evaluating and improving the process through which goals and values are established and communicated, the accomplishment of goals is monitored, accountability is ensured, and values are preserved.

**Origin and
development of
IA**

2

The role of an IA:

- . Is independent and objective
- . Renders assurance and consulting services
- . Adds value and improves the organisation by helping accomplish its objectives
- . Uses a systematic, disciplined approach when rendering internal auditing services
- . Evaluates and improves the effectiveness of the
 - risk management processes
 - control processes
 - governance processes

Independence in relation to internal audit activity:

- Means that the department must be independent of the systems, departments, individuals etc. on which they perform their audit.
- Independence means that IA must be:
 - able to develop audit programmes without being influenced.
 - able to prepare audit reports on any matters
 - objective when collecting and evaluating information and evidence.
- This will result in IA opinions that are impartial and unbiased.

The four functions of management in the organisation explained:

Planning

- Planning takes into account the main purposes of the organisation and includes both short-term and long-range objectives.
- It requires knowledge of the technological aspects of the trade, the physical and mechanical aids available, and the operating methods, techniques or strategies.
- This should be reconciled with the nature and objectives of the organisation, and with the formulated policy and staff situation.

Organising

- The planned grouping together in units, sections or departments of related or reconcilable activities
- Ensuring an uncomplicated but effective achievement of the concern's objectives and compliance with its policies.
- Organising actually represents the plan or framework within which all activities must take place.

Directing

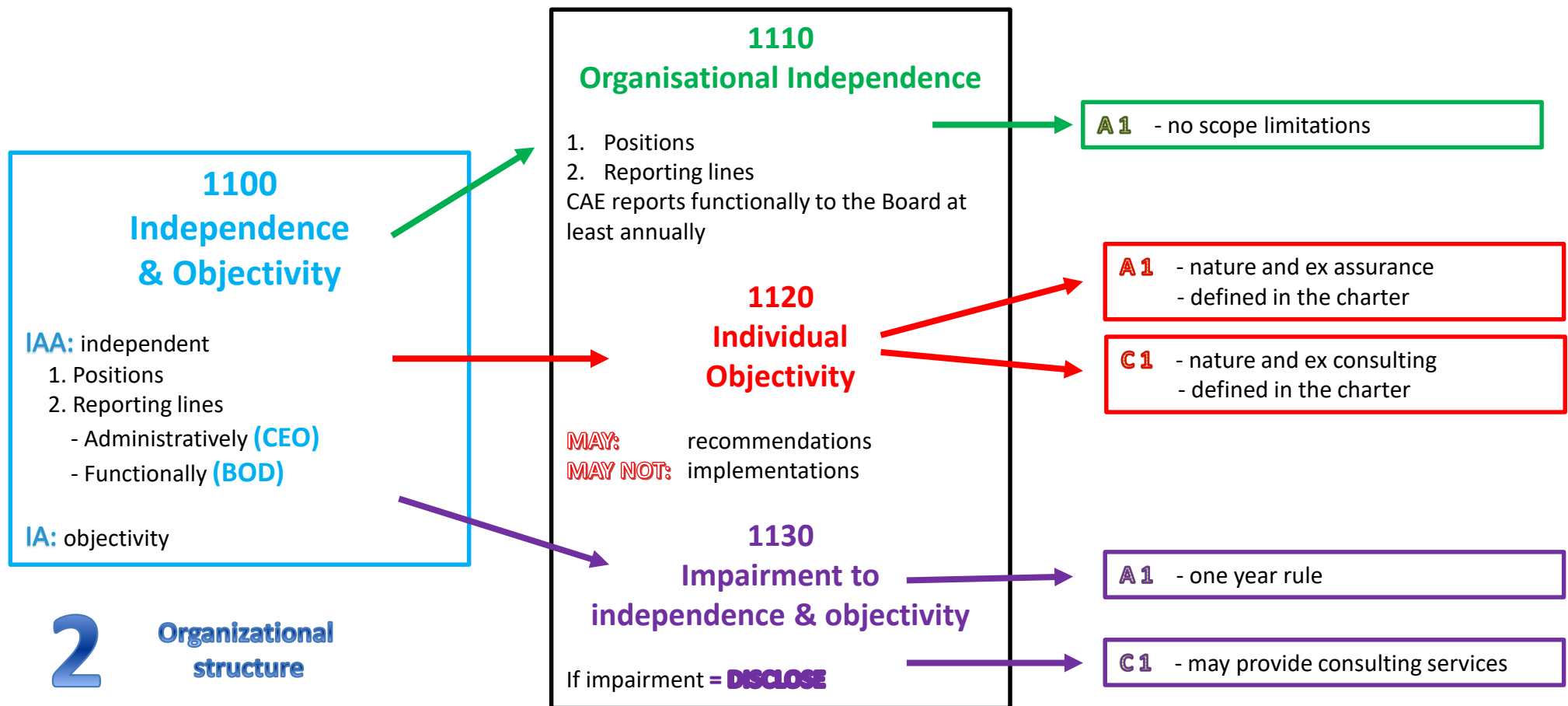
- Communication of organisational or managerial policy to subordinates.
- Communication of goals and strategies either through procedural manuals, through staff meetings or through the establishment of guidance committees.
- Motivation of staff so that they adhere to managerial policy

Control

- Control over all forms of delegated duties is the achievement of efficient and successful management
- Control is associated with:
 - adherence to managerial policy
 - compliance with planned procedures
 - the setting of minimum standards of compliance
 - efficient reporting on all activities

Place of the IA activity in organisational plan of organisation:

- It is important that the organisational plan of an entity is carefully constructed and that it allows the internal auditors to be independent.
- *Standards* describe how organisational independence should be established in the internal audit activity.
- Standard 1110 states that the chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities.
- The chief audit executive (CAE) reporting functionally to the board and administratively to the organisation's CEO facilitates organisational independence.
- The internal audit activity should be independent of the activities audited and internal auditors should be objective in performing their work.
- The fact that internal auditors may be employees of the company does not, of itself, impair their objectivity.



4. The audit committee

- Committee comprising persons outside the organisation with specialised knowledge, responsible for serving as a link between the governing body or top executive management and the external and internal auditors in all manners pertaining to auditing

CAE REPORTS:

- Audit committee on functional responsibilities
- To the CEO on operational tasks

5. Dual Reporting

- Owing to the limitations of each of the reporting lines, a compromise arrangement is normally made in practice, whereby the CAE has a dual level of reporting

1. Governing body – board of directors/ control board/ committee

- Direct reporting to the top executive management holds great advantages for the independence and accessibility of the internal audit activity
- A compromise could be agreed upon and the CAE of internal auditing then report to:
 - The board of directors regarding functional responsibilities
 - Executive management regarding matters

2. Chief executive officer (CEO)

ADVANTAGES

- It guarantees access to high level official
- It provides a reasonable measure of independence for the internal auditor
- Management feel less threatened because the accessibility of the internal auditor is at a lower level than if he were to report to the BOD

3. Chief Financial Officer (CFO)

- The internal audit activity traditionally reported to the CFO because approximately half the time spent in internal auditing was devoted to the auditing of financial aspects of the undertaking

Reporting lines for the IAA

Reporting line IA activity directly to CEO:

- The objective of internal auditing is to assist members of executive and senior management in the effective discharge in their duties and responsibilities with regard to risk management, control and governance.
- An effective IAA should provide management with:
 - Assurance that the management processes are adequate to identify and monitor significant risks
 - Confirmation of the effective operation of the established internal control system
 - Credible processes for feedback on risk management and assurance
 - Objective confirmation that the board receives the right quality of assurance and information from management and that this information is reliable

Advantages for internal auditing

1. Whenever organisational responsibilities are established there is a potential need for internal auditing to give assurance that those responsibilities are executed as planned.
2. Any deviations or discrepancies or unsatisfactory aspects from which deductions for re-organisation, adaptation or correction could be made, are timeously brought to management's attention.
3. There is always a possibility of discovering fraud and errors when continuous evaluation of the internal control is carried out by internal auditors, which is of the utmost importance to management.
4. The quality and contents of the internal audit report offer management a mechanism to apply in evaluating the internal audit activity itself.
5. The productive use of all available resources is ensured, enabling the organisation to achieve its stated objectives.
6. It enables the enterprise to evaluate its working procedures and to rectify any problems in a timely manner.

Role of IA as adviser to members:

- must form an unbiased opinion.
- merely offers advice, gives information or make recommendations; the ultimate decision therefore rests with top executive management.
- should never possess the organisational power to force top executive management to accept the audit results.

Internal auditors assist management in

- Monitoring activities top management can't itself monitor.
- Identifying and minimising risks.
- Validating reports to senior management.
- Helping line managers manage by pointing to violations of procedures and of management principles
- Protecting senior management in technical areas beyond its knowledge.
- Providing information for the decision-making process.
- Reviewing for the future as well as for the past.

IA activity as a control function:

- it functions as a control over other controls.
- the examination and evaluation of the adequacy and effectiveness of risk management, control and governance processes
- evaluates the general system of management control and the system of internal control, and keeps top executive management informed

I - International
P - Professional
P - Practices
F - Framework

A professional person: (DEF)

- A person who, within his or her specific profession, for his or her own account, but based on service, makes his or her specialised knowledge and expertise available to his client on a basis that will be both acceptable and indispensable.

Mission of Internal Audit:

- Enhance and protect organisational value by providing risk-based and objective assurance, advice and insight

Main characteristics of a profession:

- Specialised knowledge of a subject acquired from formal training.
- Render a specialised service to society.
- Predefined standards governing professional qualifications and experience.
- Min standards set for behaviour of members towards clients, colleagues and public in the practice.
- Members should be organised in the context of an association.
- Common body of knowledge must be attached to the discipline and profession.

Adherence to the IPPF

Mandatory (MUST)

- Definition of the Internal Auditing
- Code of Ethics
- Standards
- Core Principles

Strongly recommended (NOT MUST)

- Implementation Guidance
- Supplementary Guidance

Principles:

- Relevant to the profession and practice of internal auditing

Rules of Conduct:

- Describe behavioural norms expected of internal auditors

**3
IPPF**



Competency

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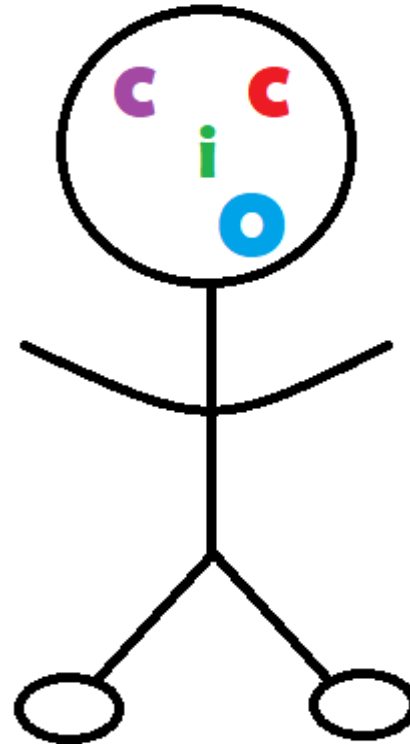
IIA'S CODE OF ETHICS

Confidentiality

- Shall be prudent in the use and protection of information acquired in the course of their duties.
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

Objectivity

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- Shall not accept anything that may impair or be presumed to impair their professional judgment.
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.



Integrity

- Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- Shall continually improve their proficiency and the effectiveness and quality of their services.
- Shall perform their work with honesty, diligence, and responsibility.
- Shall observe the law and make disclosures expected by the law and the profession.
- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

Purpose of the “Standards”:

- Delineate basic principles that represent the practice of IA
- Provide a framework for performing and promoting a broad range of value-added internal auditing.
- Establish the basis for the evaluation of internal audit performance.
- Foster improved organisational processes and operations.

ATTRIBUTE STANDARDS		PERFORMANCE STANDARDS	
1 000 Series		2 000 Series	
1000	Purpose, authority and responsibility	2000	Managing the IAA
		2100	Nature of the work
1100	Independence & Objectivity	2200	Engagement Planning
1200	Proficiency and due professional care	2300	Performing Engagement
		2400	Communicating Results
1300	Quality assurance and improvement programme	2500	Monitoring Progress
		2600	Resolution of management’s acceptance of risks

3

IIA’S CODE OF ETHICS

Add Value

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

Adequate Control

Present if management has planned and organised (designed) in a manner that provides reasonable assurance that the organisation's risks have been managed effectively and that the organisation's goals and objectives will be achieved efficiently and economically.

Assurance Services

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

Board

A board is an organisation's governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a non-profit organisation, or any other designated body of the organisation, including the audit committee to whom the chief audit executive may functionally report.

Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Chief Audit Executive

Chief audit executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics and the Standards. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title of the chief audit executive may vary across organisations.

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts or other requirements.

Code of Ethics

The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behaviour expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of IA.

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services

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.

Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- . Integrity and ethical values.
- . Management's philosophy and operating style.
- . Organisational structure.
- . Assignment of authority and responsibility.
- . Human resource policies and practices.
- . Competence of personnel.

Control Processes

The policies, procedures and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

Engagement

A specific internal audit assignment, task or review activity, such as an internal audit, control self-assessment review, fraud examination or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Work Programme

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider

A person or firm outside of the organisation that has special knowledge, skill and experience in a particular discipline.

Fraud

Any illegal act characterised by deceit, concealment or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

Impairment

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties, and resource limitations (funding).

Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Significance

The relative importance of a matter within the context.

Information Technology Controls

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure and people.

Information Technology Governance

Consists of the leadership, organisational structures and processes that ensure that the enterprise's information technology sustains and supports the organisation's strategies and objectives.

Internal Audit Activity

A department, division, team of consultants or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

International Professional Practices Framework

The conceptual framework that organises the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories mandatory and strongly recommended (3Ps).

Objectivity

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 significant quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Residual Risk

The risk remaining after management takes action to reduce the impact and likelihood of an adverse event.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact + likelihood.

Standard

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.

Technology-based Audit Techniques

Any automated audit tool, such as generalised audit software, test data generators, computerised audit programs and specialised audit utilities

4

QUALIFICATIONS & CHARACTERISTICS

The requirements for becoming a Certified Internal Auditor:

- A bachelor's degree or equivalent 3year academic qualification with three years internal auditing experience
 - or an honours degree or equivalent four-year academic qualification with two years internal auditing exp.
 - Qualifications obtained outside the USA must be submitted to the Board of Regents for approval before the candidates may take the examination.
- Good character.
- A pass mark in a four-part examination set by the International Institute of Internal Auditors.
- Set requirements for work experience.

Personal character of an IA

- Knowledge and competency
- Awareness of new developments
- Good human relations
- Diligence and patience
- Objectivity and confidence
- Practical approach
- Professionalism
- Independence and sound judgement
- Due professional care
- Integrity
- Pleasant personality

IAT and PIA consists of 2 elements:

- Education component – supplementary to the workplace training facilitated by the IIA SA which consists of several days' focused instruction spread over time to ensure minimum disruption of the normal working hours
- Experience component – candidates are issued a **T**rainning **L**og **B**ook and assigned mentors within their organisations to gather evidence of competence

Requirements as per the internal audit charter that grant the internal audit activity necessary authority:

- Access to the books, records, vouchers and accounts.
 - The internal auditor must have access to all the information pertaining to the audit assignment at all times.
- Obtaining information and explanation.
 - It is necessary that management and staff should be compelled to furnish the internal auditors with additional information and explanation should they require them.
- Attending meetings
 - Internal auditors should be invited to the meetings or receive copies of the minutes of such meetings.
- Believing trusted officials
 - Internal auditors are entitled to place reliance on any information supplied to them by trusted employees in the organization
- Independence of the internal auditor.
 - The organisational independence and objectivity are the primary means that internal auditors use to ensure their independence from the staff of the organisation as well as its normal business activities.



Constraints

- Management can impose constraints on the internal auditor regarding access to records, explanations, independence.
- The internal auditor has no legal recourse in this regard.
- Should state in his or her report that the audit was completed within certain constraints, and explain how they affected his or her findings.
- He or she should, however, persevere in attempting to persuade management not to impose unnecessary constraints on him or her as these prevent him.

5

PURPOSE,
RESPONSIBILITIES
AND LIABILITIES

Responsibilities of the internal audit activity as per the internal audit charter :

- Implement the annual audit plan, as approved, including, as appropriate, any special tasks or projects requested by management and the audit committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Issue periodic reports to the audit committee and management, summarising results of audit activities.
- Keep the audit committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the audit committee.
- Assist in the investigation of significant suspected fraudulent activities within the organisation and notify management and the audit committee of the results.

Liabilities towards the employer :

- In case of breach of contract, the employer has the following legal remedies:
 1. In terms of the general principles of the law of contract, appeal to the court to issue an order forcing the internal auditor to abide by the stipulations of the contract.
 2. Claim compensation for all losses sustained from the breach of contract by the internal auditor.
 3. When the breach of contract is considered to be very serious, summarily terminate the internal auditor's contract of service.

Importance of internal control to management:

- The primary responsibility for the safeguarding of assets and/or income, and for the prevention of fraud and errors, rests with management. The maintenance of an adequate system of internal control is the IA's responsibility.
- The protection offered by an efficiently functioning system of internal control against human weaknesses. It enables management to have greater reliance on the reliability of the data to be used in management decisions.

The duties of an internal auditor towards his or her employer :

- May not use confidential information obtained in the performance of his or her duties for his or her own gain or impart such knowledge to third parties
- Further the interests of his or her employer's business undertaking
- May not perform acts of
 - dishonesty against employer
 - which are in competition with his or her employer
 - may not perform acts of misconduct while performing duties

Liabilities towards third parties :

- The third party will have to prove that –
 1. there was misrepresentation (an act)
 2. the internal auditors were negligent in the performance of their duties, that is, that the misrepresentation was wilful or negligent (guilt desideratum)
 3. the loss sustained by the third party resulted from his or her dependence on the misrepresentation (causality)
 4. the third party sustained a monetary loss as a result of the misrepresentation (damage)
 5. the internal auditors were aware of the dependence of the third party when they committed the misrepresentation (wrongful desideratum).

What is fraud?

- *Any illegal acts characterised by deceit, concealment, or violation of trust. These acts are not dependent upon the application of threats of violence or physical force. Fraud is perpetrated by individuals and organisations to obtain money, property, or service; to avoid payment or loss of services; or secure personal or business advantages.*

Types of fraud company employees may commit:

- Acceptance of bribes or kickbacks.
- Diversion to an employee or outsider of a potentially profitable transaction.
- Embezzlement, the misappropriation/falsification of financial records to cover up an act.
- Intentional concealment or misrepresentation of events or data.
- Claims submitted for services or goods not actually provided to the organisation.

Common characteristics of fraud?

- Pressure or incentive
 - *The need the fraudster is trying to satisfy by committing the fraud*
- Opportunity
 - *The fraudster's ability to commit the fraud*
- Rationalisation
 - *The fraudster's ability to justify the fraud in his or her mind*

Legal fraud elements:

- a false representation of a material fact or an opinion made by an individual or an organisation.
- made with the knowledge that it is false or without sufficient knowledge on the subject to warrant a representation.
- a person relies on the untrue representation and acts upon it/ to his or her disadvantage/damage .

5 FRAUD

The internal auditor's responsibility regarding prevention of fraud:

In carrying out this responsibility, IA should determine whether:

- The organisational environment fosters control consciousness .
- Realistic organisational goals and objectives are set.
- Written corporate policies exist that describe prohibited activities and the action required whenever violations are discovered.
- Appropriate authorisation for transactions are established and maintained.
- Policies, practices, procedures, reports and other mechanisms are developed to monitor activities and safeguard assets.
- Communication channels provide management with adequate and reliable information.
- Recommendations need to be made for the establishment or enhancement of cost-effective controls to help deter fraud.

Role of internal auditor in detection of fraud:

- Have sufficient knowledge of fraud to be able to identify indicators that fraud may have been committed. This knowledge includes the characteristics of fraud, the techniques used to commit fraud, and the types of fraud associated with the activities reviewed.
- Be alert to opportunities, such as control weaknesses, that could allow fraud. If significant control weaknesses are detected, additional tests conducted by internal auditors should include tests directed toward identification of other indicators of fraud.
- Evaluate the indicators that fraud may have been committed and decide whether any further action is necessary and whether an investigation should be recommended.
- Notify the appropriate authorities within the organisation if it is determined that there are sufficient indicators of the commitment of a fraud to recommend an investigation.

IA responsibility in investigating fraud:

Although the IA is not an specialist fraud investigator he should keep the following in mind when conducting fraud investigations:

- Asses the probable level and extent of complicity.
- Determine the knowledge, skills and other competencies needed to carry out the investigation.
- Design procedures to attempt to identify the perpetrators, extent of the fraud, techniques used and cause of fraud .
- Coordinate activities with management personnel, legal council and other specialists throughout the investigation.
- Be cognizant of the rights of the alleged perpetrators and personnel and the reputation of the organisation itself.

5
FRAUD

- **Governance** is the process put in place by an organisation's top management to manage the organisation in the pursuit of its goals.
- **Risk Management** is the management process used in any organisation to manage the risks that has an impact on the achievement of the organisation's objectives.
- **Control** - As defined by the Institute of Internal Auditors, control is any action taken by management, the board and other parties to manage.
- **Materiality** involves the importance/value/influence that a transaction or group of transactions jointly or an operating activity or group of activities jointly or an error or group of errors, could have on the decision or opinion of the internal auditor in exercising his or her responsibilities.
- **Internal audit procedures** are the techniques employed to achieve the set internal audit objectives of every audit.

GOVERNANCE

The King III Report highlights these following key aspects:

1. Effective leadership
2. Sustainability
3. Corporate citizenship

RISK MANAGEMENT:

BUSINESS RISK:

- the threat that an event or action will adversely affect an organisation's ability to achieve its business objectives and execute its strategies successfully.

RISK MANAGEMENT:

- process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.

CONTROL

PREVENTIVE: Access cards/locks/cameras

DETECTIVE: Recons/Stock count/Alarms

DIRECTIVE: Insurance/Standards/Training

6 Governance, risk management and control

The roles of management and the internal auditor with regards to risk management:

- Management is responsible for **designing, implementing and monitoring** the risk management process and integrating it into the **day-to-day** activities of the organisation.
- The internal audit activity should assist the board, director and management by facilitation and consultation **in identifying, evaluating and assessing significant risks** and by providing **independent assurance** as to the **adequacy and effectiveness** of the related internal controls and the risk management process.

Enterprise risk management (ERM) is the identification and management of risks in the face of uncertainty as an integral part of value creation and preservation for the organisation, in a manner that will provide reasonable assurance of the achievement of the organisation's objectives.

Nature of work

The Internal Audit activity should start by:

1. Finding out exactly what the **objectives of the organisation** are and evaluate the governance processes.
2. Then it **reviews the risk management process**.
3. After evaluating the risk management process, internal audit can **evaluate the control processes**.

Organisational objectives:

Organisational objectives can be:

- **Strategic objectives** – pertain to the value creation choices management makes on behalf of the organisation
- **Operations objectives** – pertain to the effectiveness and efficiency of the organisation's operations, including performance and profitability goals and safeguarding resources against losses
- **Reporting objectives** – pertain to the reliability of internal and external reporting of financial and operational information
- **Compliance objectives** – pertain to adherence to applicable laws and regulations

Control

- Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Internal Control

- Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.



6 Governance, risk management and control

COSO Model



1 Control Environment:
The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organisation. The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct.

2 Risk Assessment:
Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives. Risk assessment forms the basis for determining how risks will be managed. Assesses risks from two perspectives:

- Likelihood
- Impact

3 Control Activities:
Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment.

4 Information and Communication:
Management obtains or generates and uses relevant and quality information from both internal and external sources (flowing down, across and up through all levels of the organisation) to support the functioning of other components of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information.

5 Monitoring activities:
Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning.

6 Governance, risk management and control

TYPES OF INTERNAL AUDITS

1. Compliance audits
2. Financial audits
3. Performance audits
4. Environmental audits
5. Fraud audits or investigations
6. Quality audits
7. Programme result audits
8. Information Technology (IT) and Information System (IS) audits



3. Performance audits

Performance auditing and operational auditing deal with the extent to which a unit meets its performance objectives (effectiveness) and how well it utilises resources (efficiency and economy)

An auditor must determine:

- which key performance indicators are used
- whether they are appropriate
- whether control objectives have been achieved in an effective, efficient and economical manner

1. Compliance audits

Compliance audits are carried out to determine whether a business entity has complied with specific policies, plans, procedures, laws, regulations or contracts, which affect the organisation.

2. Financial audits

During a financial audit, an auditor looks for evidence relating to the reliability and integrity of financial information.

4. Environmental audits

During a typical environmental audit, a team of qualified inspectors conducts a comprehensive examination of a plant or other facility to determine whether it is complying with environmental laws and regulations.

5. Fraud audits or investigations

Fraud auditing involves helping management create an environment that encourages the detection and prevention of fraud in commercial transactions.

A fraud auditor must know

- the realm of fraud possibilities (How can it happen?)
- the sources of information and evidence (Where do I look?)
- whether the environment is conducive to fraud (Is fraud likely?)
- the areas of fraud opportunity (Where can it happen?)
- the laws of evidence (How can I prove it?)

6. Quality audits

Quality audits may be defined as a systematic and independent examination to determine whether quality-related activities are implemented effectively and are complying with the quality systems and/or quality standards.

7. Programme result audits

Programme results audits aim to measure the accomplishment of established goals and objectives for operations and programmes.

Conducting such audits involves:

- ascertaining whether a specific objective or goal has been clearly defined for a particular function
- ascertaining whether the objectives or goals are relevant and consistent with management's intent
- evaluating any variance between the results and their original stated goals and objectives

8. Information Technology (IT) and Information System (IS) audits

IT audits come in a variety of forms. Any of the above types of internal audits could involve the use of computers or, for that matter, the auditing of computer systems.

7 IA Process

1

- Determining audit assignment and overall plan

2

- Planning the internal audit (engagement planning)

3

- Performing the engagement (fieldwork)

4

- Audit reporting and follow-up (monitoring progress)

PHASE 1 - Determining audit assignment

- Decide nature of audit (Fin/IT/Fraud/Control)
- Determine the origin (normal/special)
- Determine contents (Written formulation for auth.)

PHASE 2 - Planning the IA (Steps)

- 1-Obtain background information of the audit area.
- 2-Identify the audit objectives to be achieved.
- 3-Consider the audit risk. (Inherent, Control, Detection)
- 4-Determine the allocation of engagement resources.
- 5-Compile the detailed audit programme.

PHASE 3 - Performing the engagement

- Evidence is gathered to satisfy the audit objectives.

PHASE 4 - Audit reporting and follow up

- Communicate audit result to management through audit report.

7 IA Process

PHASE 1 - Determining audit assignment

- **Decide nature of audit (Fin/IT/Fraud/Control)**
 - The audit engagement could be a specific internal audit assignment, an assurance audit, or a review or consultancy engagement.
- **Determine the origin (normal/special)**
 - The audit assignment originates from a risk assessment performed annually by the internal audit department
- **Determine contents (Written formulation for auth.)**
 - The written formulation and authorisation by the initiator of the audit assignment, regarding the need for the internal audit assignment, its scope, and the restrictions imposed, help to ensure that all parties concerned, namely:
 - the responsible internal auditor;
 - the chief audit executive (CAE); and
 - management

7

IA Process

PHASE 2 - Planning the IA (Steps)

1. Obtain background information of the audit area.
 - The reasons for obtaining background information on the auditee are to:
 - Obtain knowledge of the environment and business practices applicable to that business;
 - Be able to identify the business processes put in place;
 - Evaluate the effectiveness and efficiency of the processes;
 - Identify processes that do not assist with the achievement of the objectives.
2. Identify the audit objectives to be achieved.
 - engagement objectives (sometimes also referred to as audit objectives) are broad statements developed by the internal auditor that define intended engagement accomplishments.
3. Consider the audit risk. (Inherent, Control, Detection)
 - **Audit risk** is the risk that audit coverage will not address significant business exposures
 - The total audit risk is determined by means of the formula:
 - **IAR (internal audit risk) = IR (inherent risk) x CR (control risk) x DR (detection risk)**
 - **Inherent risk** is the likelihood of a significant loss occurring before any risk-reducing factors are taken into account.
 - **Control risk** is the likelihood that the control processes established to limit or manage inherent risk are ineffective.
 - **Detection risk** is the risk that the auditors might not pick up material problem that would affect the conclusion pertaining to an audit objective.
4. Determine the allocation of engagement resources.
5. Compile the detailed audit programme.

PHASE 3 - Performing the engagement

- Evidence is gathered to satisfy the audit objectives.

Kinds of audit evidence:

Physical evidence

- is obtained by the direct observation of people, property and events.
- ex. attendance at a physical stock count and attendance at wage pay outs.

Oral evidence

- is gathered in the course of interviews or enquiries.
- Generally, must be supported by documentation/other evidence.

Documentary evidence

- Documentary evidence is the most common form of evidence.
- Internal ex. sales invoices, paid cheques, credit notes
- External ex. suppliers' invoices, credit notes received, bank statements.
- The source of documentary evidence determines its acceptability.

Evidence generated by the internal auditor

- is related to analysis and confirmation.
- ex calculations, comparisons with imposed standards

PHASE 4 - Audit reporting and follow up

- Communicate audit result to management through audit report.

Audit evidence explained:

- Audit evidence involves all forms of information which the IA considers necessary in order to achieve the audit objective.
- Evidence has a wide-ranging and important function in the IA process.
- Different kinds of evidence can be used.
- Standards to which audit evidence must comply:
 - Sufficient-so factual, adequate and convincing that it lead to same conclusion.
 - Competent-Reliable and best attainable.
 - Relevance-Supports engagement and is consistent with objectives
 - Usefulness-Information that helps org meet its goals.

Methods for obtaining audit evidence:

Observing:

- To the IA, observing means seeing or noticing. It implies taking a careful and knowledgeable look at people's activities and actions in order to obtain information required to perform his or her task.

Ex -Observe and note areas where high-value items are stored.

Questioning:

- The most pervasive technique used by the internal auditor to gather information, carried out throughout the audit, may be verbal or written.

Ex: - Ask management to describe the procedures laid down for testing the inventory records.

Verification:

- Consists of checking, examining and/or obtaining satisfactory evidence that all the organisation's assets and liabilities that are, or should be, shown on the balance sheet

- do exist , are in fact the property or liability of the undertaking
- are shown at a fair valuation

Ex: - Scrutinise sufficient relevant inventory records to be satisfied that the required adjustments have been made.

7

IA Process

Therefore for any observation identified during the audit, the internal auditor should compile an **audit finding**.

An audit finding should contain the following elements.

- **Criteria:** the standards, measures or expectations used for evaluating and/or verifying (what should exist).
- **Condition:** the factual evidence that the internal auditor has found in the course of the examination (what does exist).
- **Cause:** the reason for the difference between the expected and actual conditions (why the difference exists).
- **Effect:** the risk or exposure the organisation and/or others encounter because the condition is not consistent with the criteria (the impact of the difference). In determining the degree of risk or exposure, internal auditors should consider the effect of their audit observations and recommendations on the organisation's strategic objectives.
- **Recommendations:** the possible remedies to address and correct the finding in future. The recommendation should address the cause of the finding.

7

IA Process

Audit marks:

- The IA does not make entries in the books, but checks, looks over or audits transactions which have already been recorded in the books of account.
- A distinctive audit mark/tick is therefore placed against every examined entry to signify performance of a particular procedure.
- Different positions for the placing of the marks is that one entry may be subjected to more than one procedure.

Internal Audit testing:

Audit testing does not mean verifying every entry in the books of account and/or records associated with the audit, but rather the random selection, on a scientific basis, of specific periods, books, records, or types of audit evidence for an audit.

a. Purpose

Sampling, or testing, (which is merely an audit tool – not a procedure in itself) is applied for the purposes of

- arriving at an audit opinion rapidly and without delay
- arriving at conclusions on whether the population should be accepted or rejected
- assuring that the conclusions regarding the financial and/or other records are reliable and accurate
- on the strength of the theory of probability, using the sampling conclusions as the basis for the reasonableness of the audit opinion

b. Requirements

Every sample must comply with the following three requirements:

1. It must be **adequate**, that is, it must contain a sufficient number of items to reveal similar results if other samples of the same size are selected from the same population.
2. It must be **representative**, that is, reveal characteristics similar to all the data in the particular population.
3. It must be **stable**, that is, the results of the sample must remain unchanged even if the sample size is increased.

Audit ticks:

Casting or additions	----	Underneath the total
Transfer of totals	H	To the left of the total
Postings		To the left of the total
Vouching of transactions	#	To the left of the total
Verification of balances	b	To the left of the total

c. Factors determining nature and scope

The following factors directly determine the nature and scope of audit sampling or testing:

- the effectiveness of the system of internal control the more effective, the smaller the sample
- materiality of the transactions – the more material, the larger the sample
- volume of transactions (population size) does not affect the size of the sample
- method of record keeping
- relative risk associated with the transactions
- nature of the evidence
- suggestion of irregularities
- unusual items in the population.

8

IA procedures & tools

Audit working paper objectives:

- Working papers that document the engagement should be prepared by the IA and reviewed by the management of the IA activity.
- Working papers should record the information obtained and the analyses made, and should support the bases for the observations and recommendations to be reported.

Audit working paper advantages:

- Aid in the planning, performance and review of engagements.
- Provide the principal support for the engagement results.
- Document whether the engagement objectives were achieved.
- Support the accuracy and completeness of the work performed.
- Provide a basis for evaluating the IA activity's quality assurance and improvement program.
- Facilitate third-party reviews.

Internal auditing aids:

- Auditing instruments which the IA uses while carrying out the audit procedures.
- They are not in themselves audit procedures., although they form an integral part of the audit, they merely aid in establishing audit opinion or conclusion.
- Examples: Audit marks/Audit working papers/Audit testing or sampling

The purpose, requirements and factors that influence testing or sampling:

- Purpose:
 - Arriving at an audit opinion rapidly and without delay.
 - Arriving at conclusions on whether the population should be accepted or rejected.
 - Making sure that the conclusions regarding the records are accurate.
 - Using the sampling conclusions as the basis for the reasonableness of the audit opinion.
- Requirements (it must be...):
 - adequate-it must contain a sufficient number of items to reveal similar results.
 - representative-reveal characteristics similar to all the data in the particular population.
 - stable- the results of the sample must remain unchanged even if the sample size is increased.
- Factors that influence sampling:
 - Materiality of the transactions the, more material, the larger the sample.
 - Method of record keeping
 - Relative risk associated with the transactions
 - Nature of the evidence
 - Unusual items in the population

8

IA procedures & tools

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Relationship between IA and other

Practices that would enhance a good relationship between the audit committee and the IA activity:

(Relationship between CAE and the audit committee)

- The chief audit executive (CAE) should have the following dual-reporting responsibilities:
 - functionally to the audit committee, and
 - administratively to the chief executive officer.
- The chief audit executive should:
- Have ready access to the audit committee.
- Have direct and regular communication with the audit committee.
- Attend audit committee meetings.
- Meet privately with the audit committee on a regular basis.
- The audit committee should approve the appointment or removal of the chief audit executive.
- The audit committee should be advised by the CAE on his relationship with the external.

Relationship between IA and general management(GM):

- The achievement of suitable standards of economy, efficiency and effectiveness should be the goal of all managers.
- Any evaluation process requires us to compare the actual state of affairs or expected developments to relevant standards and practices.
- The relationship between GM and IA is a close one; the two disciplines are to all intents and purposes inseparably intertwined.
- The IA should - use the same approach in their evaluations as would managers at all levels of the enterprise.
 - use the principles of efficient management of an organisation as frame of reference when evaluating the efficiency of the organisation's management.
 - evaluate every normal management function of an organisation into its component elements and evaluate them against generally accepted management practices.

Relationship between IA and financial and management accounting:

- To be able to evaluate, the auditor must know the techniques, procedures, principles and practices of accounting.
- Accounting is a creative process and auditing is a critical process.
- Accounting information is measurable by criteria such as adequacy, understand ability, neutrality, timeliness, comparability and completeness.
- Accounting information must be capable of being substantiated before it can be subjected to an audit.

Factors leading to a poor relationship between internal and external auditors:

- Lack of initiative on the part of both parties.
- Insufficient communication between the two parties.
- Failure on the part of the EA to acknowledge the role and experience of the IA.
- The opinion of certain EA that IAs are not capable and well trained.
- Uncertainty regarding the extent to which EA can rely on the work of IA.
- IA are perhaps not motivated to help EA. They may feel that they are performing work that the EA does not want to do himself.
- Using IA personnel in assisting the EA can create a problem as, the IA personnel's work is of a continuous nature and is not aimed at year-end audits. This may result in the rescheduling of IA planning to make personnel available to the EA.

Cooperation between IA and EA can influence the interrelationship through

Mutual confidence:

- Because both groups share certain objectives and certain areas of work, it is in both their interests to promote a cooperative relationship in order to render a more cost effective and efficient service.
- The parties must bear the following in mind:
 - Their interaction must have as its object the optimum utilisation of audit aids.
 - The role and responsibilities of both groups of auditors differ substantially, because IA report to management and EA to the owners.
 - The EA may decide not to disclose certain suspicious or confidential matters to the IA.

Nature and advantages of a good relationship:

- The relationship between the EA and the IA must promote interaction which is necessary to ensure economical auditing.
- It creates an opportunity for interaction which is advantageous to the EA, the IA and the undertaking, because time and money are saved in this way.
- The EA can reduce the extent of his or her audit procedures and audit tests if he or she intends to rely on the work of the IA.
- It gives the IA the assurance that an independent person is evaluating the IA activity and that he or she will provide objective recommendations.

Limitations and dangers in connection with the work of the internal auditor:

- Before relying on the work of the IA, the EA should consider certain restrictions and dangers which exist.
- EA are primarily concerned with the fairness of the fin statements , where IA are primarily concerned with the wider concept of operational effectiveness.
- The EA cannot delegate responsibility for his or her professional opinion.
- The EA must not rely excessively on the IA activity, regardless of its quality and scope.
- If the IA becomes too closely involved, the EA`s insight and judgment could be affected.
- The reliance placed by EA on the work of IA has not yet enjoyed the attention of the courts. Thus, the external auditor must be able to prove:
 - the extent to which he or she relied on the work of the internal auditor
 - that he or she had taken due care .

Actions that could be conducive to good cooperation and coordination between the external and internal auditors:

- A uniform evaluation methodology - both groups would use similar auditing procedures and standardised audit working papers.
- Direct support in that working papers and audit personnel are at each other's disposal. EA will not be inclined to release their working papers in order to assist the IA, because of confidentiality.
- Joint training and/or participation in each other's training. These actions are useful if they deal mainly with matters of mutual interest.
- Exchange of audit reports on matters of mutual interest, and the follow-up of suggestions and recommendations by the other party.
- The sharing of responsibilities in that IA accept responsibility for tasks delegated to them by the EA; teamwork in performing certain tasks, and supportive presentations to company officials and management.
- The evaluation by internal and external auditors of the effectiveness of each other's work and the reporting on this to management.
- Planning could be undertaken together and with each other's audit plans at their disposal, joint audit plans could be developed.
- Periodic meetings where aspects of mutual interest regarding their audit responsibilities are discussed.
- A professional attitude towards each other and mutual respect for each other's professional responsibilities.

REFERENCES:

Sample Internal Audit Department Charter

MISSION AND SCOPE OF WORK

The mission of the internal audit department is to provide independent, objective assurance and consulting services, designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The scope of work of the internal audit department is to determine whether the organisation's network of risk management, control and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure the following:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable and timely.
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- Resources are acquired economically, used efficiently and adequately protected.
- Programmes, plans and objectives are achieved.
- Quality and continuous improvement are fostered in the organisation's control process.
- Significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately.

Opportunities for improving management control, profitability, and the organisation's image may be identified during audits. They will be communicated to the appropriate level of management.

ACCOUNTABILITY

The chief audit executive, in the discharge of his/her duties, shall be accountable to management and the audit committee to do the following:

- Provide annually an assessment on the adequacy and effectiveness of the organisation's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of the organisation and its affiliates, including potential improvements to those processes and provide information concerning such issues through resolution.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

INDEPENDENCE

To provide for the independence of the internal audit activity, its personnel report to the chief audit executive, who reports functionally to the audit committee and administratively to the chief executive officer in a manner outlined in the above section on accountability. It will include as part of its reports to the audit committee a regular report on internal audit personnel.

RESPONSIBILITY

The chief audit executive and staff of the internal audit department have responsibility to do the following:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the audit committee for review and approval as well as for periodic updates.
- Implement the annual audit plan, as approved, including, as appropriate, any special tasks or projects requested by management and the audit committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Issue periodic reports to the audit committee and management, summarising results of audit activities.
- Keep the audit committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the audit committee.
- Assist in the investigation of significant suspected fraudulent activities within the organisation and notify management and the audit committee of the results.

AUTHORITY

The chief audit executive and staff of the internal audit department are authorised to do the following:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the audit committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the organisation where they perform audits, as well as other specialised services from within or outside the organisation.

The chief audit executive and staff of the internal audit department are not authorised to do the following:

- Perform any operational duties for the organisation or its affiliates.
- Initiate or approve accounting transactions external to the internal audit activity.
- Direct the activities of any organization employee not employed by the internal audit activity, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

Organisational independence:

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

