

# Internal Audit (ACCT 337)

## **Chapter 1**

### Introduction to Internal Audit



# **COURSE OUTLINE**

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Welcome

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Course Prerequisite

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Lectures

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Exams, Assignments and Quizzes

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Course Objectives

<b>Field</b>	<b>Applicable standards</b>	<b>Board/Institute</b>	<b>Certificate</b>
Financial ACCT	GAAP/IFRS	FASB/IASB	CPA/CMA
Managerial ACCT	-	IMA	CMA
External Audit	GAAS/ISA	AICPA/IAASB	CPA
Internal Audit	IIA Standards	IIA	CIA

# PROFESSIONAL CERTIFICATES

# INTRODUCTION

- Listed entities: IAF
- Misperception: police function?
- What is internal audit??!
- Key terms:
  - Institute of IAs ([www.theiia.org](http://www.theiia.org))
  - IAF (IAD)
  - CAE
  - BOD
  - AC

# Internal Audit Value Proposition

- The IIA formed a task force in 2008 “to explore and develop a clear and concise description of internal audit’s value proposition...” In 2010, the IIA Global Board of Directors, The IIA’s governing body, endorsed the outcomes of the task force’s work.
- The three components of the value proposition are defined below:

## 1- Assurance = Governance, Risk, and Control.

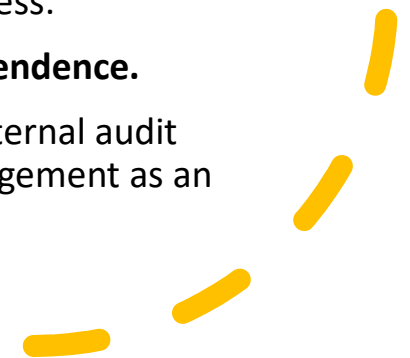
Internal audit provides assurance on the organization’s governance, risk management, and control processes to help the organization achieve its strategic, operational, financial, and compliance objectives.

## 2- Insight = Catalyst, Analyses, and Assessments.

Internal audit is a catalyst for improving an organization’s effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business process.

## 3- Objectivity = Integrity, Accountability, and Independence.

With commitment to integrity and accountability, internal audit provides value to governing bodies and senior management as an objective source of independent advice



## EXHIBIT 1-1 THE VALUE PROPOSITION

### Internal Auditing = Assurance, Insight, and Objectivity

Governing bodies and senior management rely on internal auditing for objective assurance and insight on the effectiveness and efficiency of governance, risk management, and internal control processes.



Source: Miller, Patty, and Tara Smith, *Insight: Delivering Value to Stakeholders* (Lake FL: The Institute of Internal Auditors, 2011), 14.



# Internal Audit Value Proposition

# Definition of IA

The IIA's Board of Directors adopted the current definition of internal auditing in 1999:

*“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”.*

## KEY TOPICS

T1- It helps an organization accomplish its objectives

T2- evaluate and improve the effectiveness of risk management, control, and governance processes

T3- assurance and consulting activity

T4- independent, objective

T5- a systematic, disciplined approach

# T1: It helps an organization accomplish its objectives (1 of 3)

- Objective: what the organization wants to achieve.
- COSO:
  - Committee of Sponsoring Organizations of the Treadway Commission
  - Joint initiative of 5 organizations: for the development of framework for risk management and internal controls.
    1. AAA
    2. AICPA
    3. FEI
    4. IMA
    5. IIA
- COSO report: 4 types of objectives



## It helps an organization accomplish its objectives (2 of 3)

- Types of Objectives:

1. Strategic Objectives: long term
2. Operations Objectives: efficiency and effectiveness of operations
3. Reporting Objectives: Reliability of internal/external reporting of financial/nonfinancial information
4. Compliance Objectives: with applicable law and regulations

It helps an organization accomplish its objectives (3 of 3)

- Business objectives: foundation for defining internal audit objectives (what the IA wants to achieve).

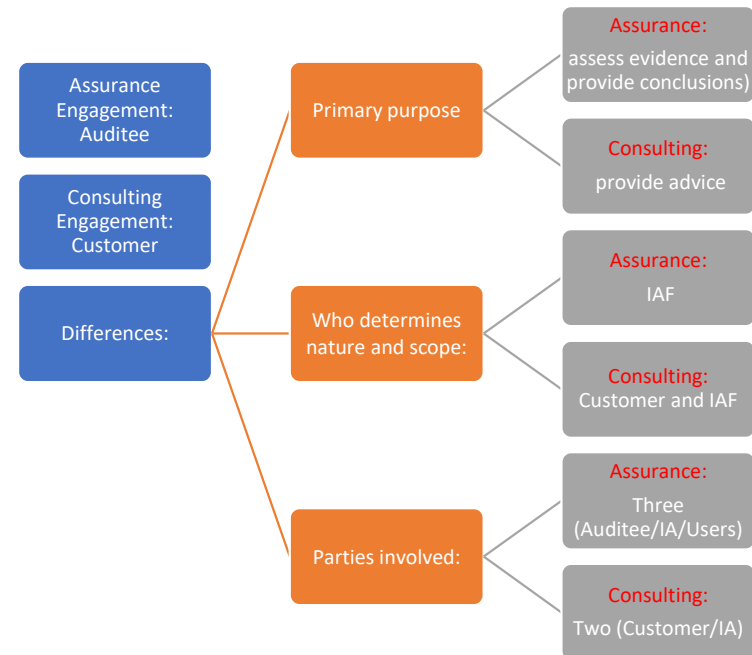
		Business Objectives	Audit Engagement Objectives
		Strategic	Grow the organization's market share by acquiring complementary businesses.
BUSINESS OBJECTIVES	Operations	Ship all orders no later than 48 hours after receiving the orders.	Determine whether orders are, in fact, being shipped within 48 hours of receipt.
	Reporting	Record only valid sales transactions.	Verify the design adequacy and operating effectiveness of control activities put in place to ensure that recorded sales actually occurred (in other words, recorded sales reflect the transfer of ownership on goods shipped to customers).
	Compliance	Comply with Occupational Safety and Health Administration (OSHA) regulations.	Determine that policies and procedures established to ensure compliance with OSHA regulations are well understood, documented, and communicated.

## T2: Evaluate and improve the effectiveness of risk management, control, and governance processes.

- Governance :
  - Process conducted by BOD
  - To authorize, direct and oversee management toward the achievement of the organization's objectives
- Risk Management :
  - Process conducted by Management
  - To understand and deal with risks (negatively affect the entity ability to achieve its objectives).
- Internal Control:
  - Process conducted by Management
  - To mitigate risks to acceptable levels.

# T3: Assurance and consulting activity


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# T4: Independence and Objectivity

- Independence:
    - Organizational status of IAF
    - CAE reports functionally to BOD (AC) and administratively to CEO
  - Objectivity:
    - Mental attitude of individual IAs
    - Should not
      - Involve themselves in day to day operations
      - make management decisions
      - avoid conflict of interest (12 months must elapse)
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## T5: Systematic and Disciplined Approach

- 3 phases process
  - Planning
  - Performing (testing)
  - Communicating (reporting)

# Differences between Internal Audit and External Audit

Opinion

Primary users

# Nature and Scope of IA Services (1/2)

Help achieving objectives

Evaluate and improve effectiveness of GRC



Test Design adequacy and operating effectiveness



Testing procedures

- 1- Inquiry
- 2- Observation
- 3- Inspection of documents
- 4- Confirmations
- 5- Direct test of transactions and events





# Nature and Scope of IA Services (2/2)

- In-house IAF
- Outsourcing
  - Full outsourcing (Outside audit firm providing internal audit services)
  - Co-sourcing (in-house IAF and outside audit firm)



# Professional Certification in IA

- IIA - CIA
- Certified Internal Auditor, 3 parts exam:
  1. IA Basics
  2. IA Practices
  3. IA Knowledge Elements

