

INTERNAL AUDITOR FUNCTION

FUNCTION

❖ **What is Internal Auditing?**

- Internal auditing is an independent, objective assurance and consulting activity that adds value to and improves 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.

❖ **A Valuable Resource**

- Internal auditing is a valuable resource to executive management and the board of directors in accomplishing overall goals and objectives, as well as strengthening internal control and governance.

❖ **Benefits to Management**

- Share best practices among operating companies
- Assist in maintaining compliance with federal regulations
- Provide consistency regarding policies and procedures
- Resource for operating divisions
- New business ventures
- New technology
- Keeping senior management aware of critical issues
- Ensuring factual communications of financial and other data
- Suggestions based on knowledge of operations throughout the organization

❖ **An Audit Committee Resource**

- Internal audit is the primary resource of the audit committee in carrying out its duties and responsibilities.

❖ **What Internal Audit Shouldn't Do**

- Function only when there's a crisis
- Focus on people instead of processes
- Look for scapegoats
- Pit divisions against each other
- Monday morning quarterback

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❖ Internal Auditors' Roles

- Evaluating risk
- Analyzing Operations
- Reviewing Compliance
- Recommending Controls
- Assuring Safeguards

❖ Evaluating Risk

- Internal auditors identify all auditable activities and relevant risk factors, and assess their significance.
 - Investigating
 - Evaluating
 - Identifying potential trouble spots
 - Communicating
 - Anticipating emerging issues
 - Identifying opportunities

❖ Analyzing Operations

- Internal auditors:
 - Review operations, policies, and procedures
 - Help ensure goals and objectives are met
 - Understanding of “big picture” and diverse operations
 - Provide insight as to how to improve consistency
 - Make recommendations to improve economy and efficiency

❖ Reviewing Compliance

- Ensure management's policies and procedures are documented and followed
- Analyze impact of changes in procedures
- Assure compliance with laws & regulations
- Review objectives for adherence to organization's mission, culture, & climate
- Provide insight to the impact of noncompliance

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❖ Internal Controls

- Evaluate efficiency & effectiveness of controls
- Recommend new controls where needed – or discontinuing unnecessary controls
- Help establish appropriate internal controls prior to companies engaging in new activities or technologies
- Control self-assessment
- Provide education on risks and controls

❖ Assuring Safeguards

- Evaluate procedures to safeguard assets
- Technological safeguards
- Emerging issues

❖ Governance

- Internal auditing provides assurance to management and the audit committee that risks are understood and managed properly.

CONSTRAINTS/CHALLENGES

❖ Resources

- Resourcing is a key challenge - as the role of internal audit functions evolves, so must the core competencies and skills required. The necessity for continuous self and professional development is high.
- To meet the ever evolving and expanding role of internal audit and improve its own management, companies must continue to invest in new approaches and technology solutions that will enhance their performance. The challenge is to keep abreast of best practice and be cost effective.

❖ Cost

- Additional overhead costs will be incurred for staffing, evolving technology and continuing education.

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❖ Perception

- Tension between internal audit's role as a watchdog of control and as a value-added business advisor can lead to communication gaps.

❖ Continual Commitment from Senior Management Required

- Non-supported, ineffective auditing can lead to increased, nonvalue-added costs and wasted resources.