Top Ten Issues facing Internal Auditing in the Future

The IIA Dallas Chapter
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Presented by:
David A. Richards, CIA, CPA
President
The Institute of Internal Auditors
drichards@theiia.org
Agenda

• What should Internal Auditors do?
• Top Ten areas for internal auditors to focus on for the future
• How can The IIA help?
Definition of Internal Auditing:

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 and disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes.

(Approved by the Board of Directors 6/26/99)
What do Internal Auditors Do?

- Help solve problems
- Confirm accuracy of information
- Ensure assets are properly safeguarded
- Confirm compliance to laws & regulations
- Help improve the effectiveness and efficiency of processes
- Investigate fraud situations
- Provide a resource for skills
What are our Constituents saying about us?

- Communication needs improvement (AC, Mgt, EA)
- Focus needs better alignment
- Resources/skills need assessment
- Top areas for attention: control, risk, fraud, IT
- Assessment of results presentation
Where are we now???

- What **Image** do we have?
- What type of **Outputs** do we produce?
- What **Process** do we follow?
- What ability do we have to **control the future**?
- What **indicators** do we have of how we are doing?
Where are we now???

Image

- Corporate “cop”
- Compliance focused
- Partner
- Source of value creation
- Involved in corporate initiatives
- Customer focused
Outputs

• Findings / causes
• Recommendations
• Implementation help
• Post implementation verification / confirmation of results that resolve issues
• Anticipate customer needs
Where are we now???

Process

- Cycle
- Risk based
- Customer input
- Customer focused / driven
- Competitive (Bid)
- Proactive vs. reactive
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#1: Fraud Audit Techniques
Fraud Responsibilities

• Internal Auditing
  – Fraud risk identification & response
  – Investigating Fraud cases
  – Fraud consideration in each audit
  – Support Hot Line
  – Support Education & Training
  – Help Ethics Officer – Fraud Program
  – Help establish Corporate Compliance Program
Fraud Aspects

• Awareness
• Training
• Identification
• Investigation
#2: Technology Expertise
Assessing IT Controls

• Understanding IT Controls
  – Governance, Management, Technical
  – General / Application
  – Preventive, Detective, Corrective
  – Information Security

• Importance of IT Controls

• Roles & Responsibilities for IT Controls

• Based on Risk

• Monitoring techniques

• Assessment Process
GAIT Scoping Example

For financial reporting, the scope of IT control testing has three primary axes:

- What business processes are in scope?
- Which business processes are relevant to financial reporting (e.g., materiality)?
- How significant is the business process to the financial reporting objective?
- What other transactional controls exist that may create assurance of the business process integrity (e.g., manual settlement and balancing)?

Example: 10 revenue generating systems; external auditors won’t look at all 10, but will concentrate on the 3 that compose 85%.

- For those business processes in scope, what IT assets are considered relevant to financial reporting (e.g., distance and percentage of controls embedded in IT)?

Example: 10 revenue generating systems; external auditors won’t look at all 10, but will concentrate on the 3 that compose 85% of the overall revenues.

- What level of controls evaluation and testing is required to create sufficient assurance for management to make the assertions related to IT change and IT entitlements transactions (e.g., completeness, accuracy, etc.)?
- What are the types of controls in place? The level of assurance goes from highest to lowest, in the following order:
  - automated and preventive
  - automated and detective
  - manual and preventive
  - manual and detective
#3: Governance Auditing
Governance – Key Words

- **Expectations** – What is needed for Success: Policies, procedures, guidance, organization, assignment of responsibilities

- **Communications**
  - Informing & Training

- **Accountability** – holding people accountable for meeting expectations
IIA Standards-Governance

- 2130-Governance
- The internal audit activity should contribute to the organization's governance process by evaluating and improving the process through which (1) values and goals are established and communicated, (2) the accomplishment of goals is monitored, (3) accountability is ensured, and (4) values are preserved
Allocation of IA Effort

- Best Practice reviews
  - Perform audits of design & effectiveness of specific governance processes
  - Provide advice with focus on Establishing Governance Structure

Audit Effort

Less Structured Governance Model

More Structured Governance Model
What Should IA Do?

Setting Expectations:

IA should:

-- Help drafting of policies, procedures, processes, guidance to utilize their
  - knowledge
  - expertise

-- Ensuring Controls are build into processes not added on
What Should IA Do?

Communicate:

IA should:

-- Assist in training programs on
  - Ethics
  - Risk identification
  - Control options
  - Fraud awareness

-- Design programs

-- Participation in training sessions
What Should IA Do?

Accountability:

IA should:

-- Perform objective assessments using systematic, disciplined approach that incorporates an evaluation of evidence

-- Ensure compliance to management directives by comparison of actual to criteria

-- Assist in evaluation of processes to ensure efficient operations and effective accomplishment of objectives
#4: Internal Control Assessment & Opinion
Control

- Defining Key Controls
- Assessing Control Effectiveness
- Opinion
A **Process** Effected by an Entity’s Board of Directors, Management and Other Personnel, Designed to Provide **Reasonable Assurance** regarding the **Achievement of Objectives** in the following categories:

--Effectiveness & Efficiency of Operations  
--Reliability of Financial Reporting  
--Compliance with Applicable Laws & Regulations  
--Safeguarding of Assets

COSO Definition
Opinion on IC

- Evaluation criteria & structure
- Scope
- Who has responsibility for IC
- Type of opinion
  - Positive assurance
    - Binary
    - Graded
    - Directional
  - Negative assurance
  - Qualified
Issues

- Estimates
- Closing Process
- Journal Entries
- Reconciliations
- Assignment of Responsibilities
- Accountability
- Ethics
- Risk Assessment
- Governance (Principles)
- IT Controls
- Analysis & Monitoring
#5: Risk Assessment Approach
5. Risk Assessment

- Knowledge
- Use
- Reporting
- Audit Committee & Risk
- ERM & IA
Definition

• **IIA Research Report**  A rigorous and coordinated approach to assessing and responding to all risks that affect the achievement of an organization’s strategic and financial objectives. This includes both upside and downside risks.
Key Concepts – Premises

• ERM enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value
Core Roles for IA on ERM

- Giving assurance on risk management processes.
- Giving assurance that risks are correctly evaluated.
- Evaluating risk management processes.
- Evaluating the reporting of key risks.
- Reviewing the management of key risks.
Roles IA Can Do

- Facilitating identification and evaluation of risks.
- Coaching management in responding to risks.
- Coordinating ERM activities.
- Consolidating the reporting on risks.
- Maintaining and developing the ERM framework.
- Championing establishment of ERM.
- Developing risk management strategy for board approval
Roles IA should NOT do

• Setting the risk appetite.
• Imposing risk management processes.
• Management assurance on risks.
• Taking decisions on risk responses.
• Implementing risk responses on management's behalf.
• Accountability for risk management.
ERM Framework – What’s New?

- Monitoring
- Information & Communication
- Control Activities
- Risk Assessment
- Control Environment
- Objective Setting
- Event Identification
- Risk Assessment
- Risk Response
- Control Activities
- Information and Communication
- Monitoring
Essential – Process

- OBJECTIVES
- EVENTS
- RESPONSES
- INHERENT RISK
- RESIDUAL RISK
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#6: Time Management
#7: Willingness to “step up to the plate & be counted”
#8: Observation Skills Application
#9: Consultancy / Process Analysis Skills
#10: Communication Skills
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The IIA Vision

The **global voice** of the internal auditing profession: **advocating** its value, promoting best practice, and providing **exceptional service** to its members.
The mission of The Institute of Internal Auditors is to provide dynamic leadership for the global profession of internal auditing. Activities in support of this mission will include but will not be limited to:

1. Advocating and promoting the value that internal audit professionals add to their organizations;

2. Providing comprehensive professional growth opportunities; standards and other professional practice guidance; and certification programs;
The IIA Mission Statement

(Continued)

3. Researching, disseminating, and promoting to practitioners and stakeholders knowledge concerning internal auditing and its appropriate role in control, risk management, and governance;

4. Educating practitioners and other relevant audiences on best practices in internal auditing; and

5. Bringing together internal auditors from all countries to share information and experiences.
IIA Mission is to provide:

- Guidance & Standards
- Certification Program
- Research
- Promotion of the Profession
- Forum for interchange
- Training
IIA Top Needs

• Advocacy
• Globalization
• Service to Members
Advocacy

- Position papers
- Key Constituent Groups
- Link to IIA Advocate
- Advocacy Specific Plan for each Group
  - Objective
  - Approach
  - Measures of success
Global Initiatives

- Guidance Planning
- Academic Relations
- Government Auditors
- SOA / Control Assessment
- Technology Based Learning
- Service Providers
- Knowledge Management
- Customer Service
Global Initiatives

- Branding
- Certification (CBT)
- Translations on Website
- Webcasts
- Bill Bishop Memorial Fund Project
- Global Seminars
- IT – GTAG & GAIT
Global Initiatives

- International Conference Model
- GAIN
- Flash Surveys
- Capacity Development
- Website Redesign
- CIA Training Course
- Career Board
Operations - Service

- Website Information
- Affiliate Relations (restructure)
- Membership (growth & retention)
- New Computer Systems (Cust Serv)
- Bookstore – global reach
- CIA (exam training, CAE testing, Support)
- Quality Assessment (SAWIV, tools, QA Manual)
- Publications – On line delivery
The Internal Auditing Activity is a key element in an On-going Monitoring and Oversight Program within an Organization. It demonstrates Management & Board commitment to ensuring accuracy, efficiency, and effectiveness of operations & reporting.