

# Sawyer's

## INTERNAL AUDITING

Enhancing and Protecting Organizational Value

7<sup>TH</sup>  
EDITION

# Internal Audit 2020 & Beyond

Enhancing and Protecting  
Organizational Value

  
INTERNAL AUDIT  
FOUNDATION™

[www.theiaa.org/foundation](http://www.theiaa.org/foundation)

# Who is Larry Sawyer?

- Know the Objectives
- Know the Controls
- Know the Standards
- Know the Population
- Know the Facts
- Know the Causes
- Know the Effect
- Know the People
- Know When and How to Communicate
- Know the Modern Methods



Larry Sawyer

Enhancing and Protecting  
Organizational Value

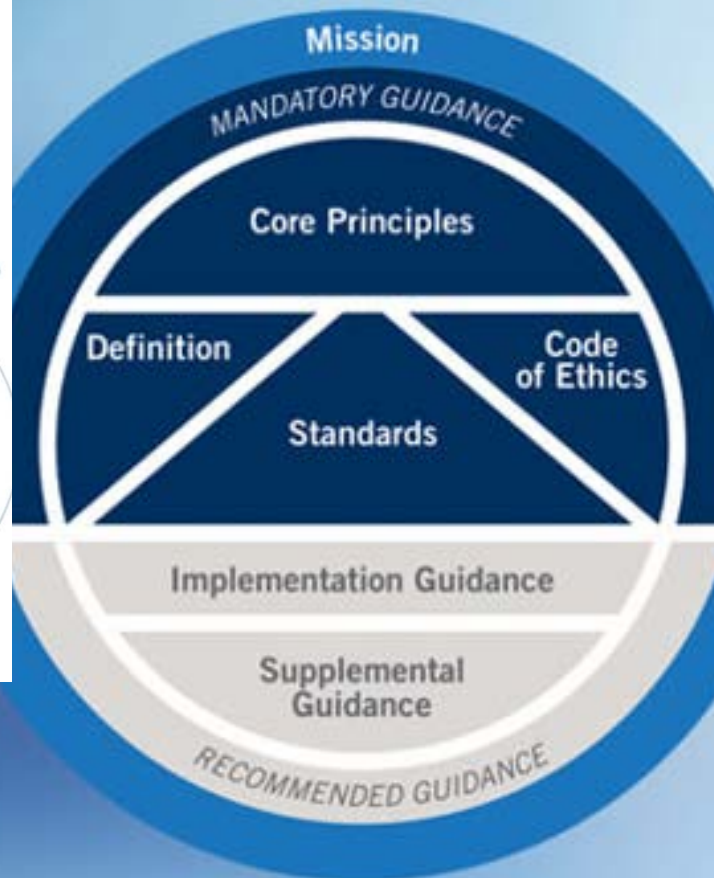
# Sawyers 7<sup>th</sup> Edition Goals

- Readable by IA and Stakeholders
  - Business Perspective of Internal Audit
- Relevant to today's IA challenges
  - Growing Risk Functions, Collaboration
- Mission Focused
  - Enhancing and Protecting Organizational Value
- Spirit of Knowing Modern Methods

# Enhancing and Protecting Organizational Value



International Professional Practices Framework



## Sawyer's

INTERNAL AUDITING

Enhancing and Protecting Organizational Value



## INTERNAL

ASSURANCE & ADVISORY SERVICES

## AUDITING

URTON L. ANDERSON, PhD, CIA, CMA, CGAP, CCEP  
MICHAEL J. HEAD, CIA, CPA, CMA, CFA, CISA  
SRIDHAR RAMAMOORTI, PhD, CIA, CFE, MAIF  
CRIS RIDDLE, MA, CIA, CMA  
MARK SALAMASICK, CIA, CMA, CFP  
PAUL J. SOBEL, CIA, CMA, CIFA

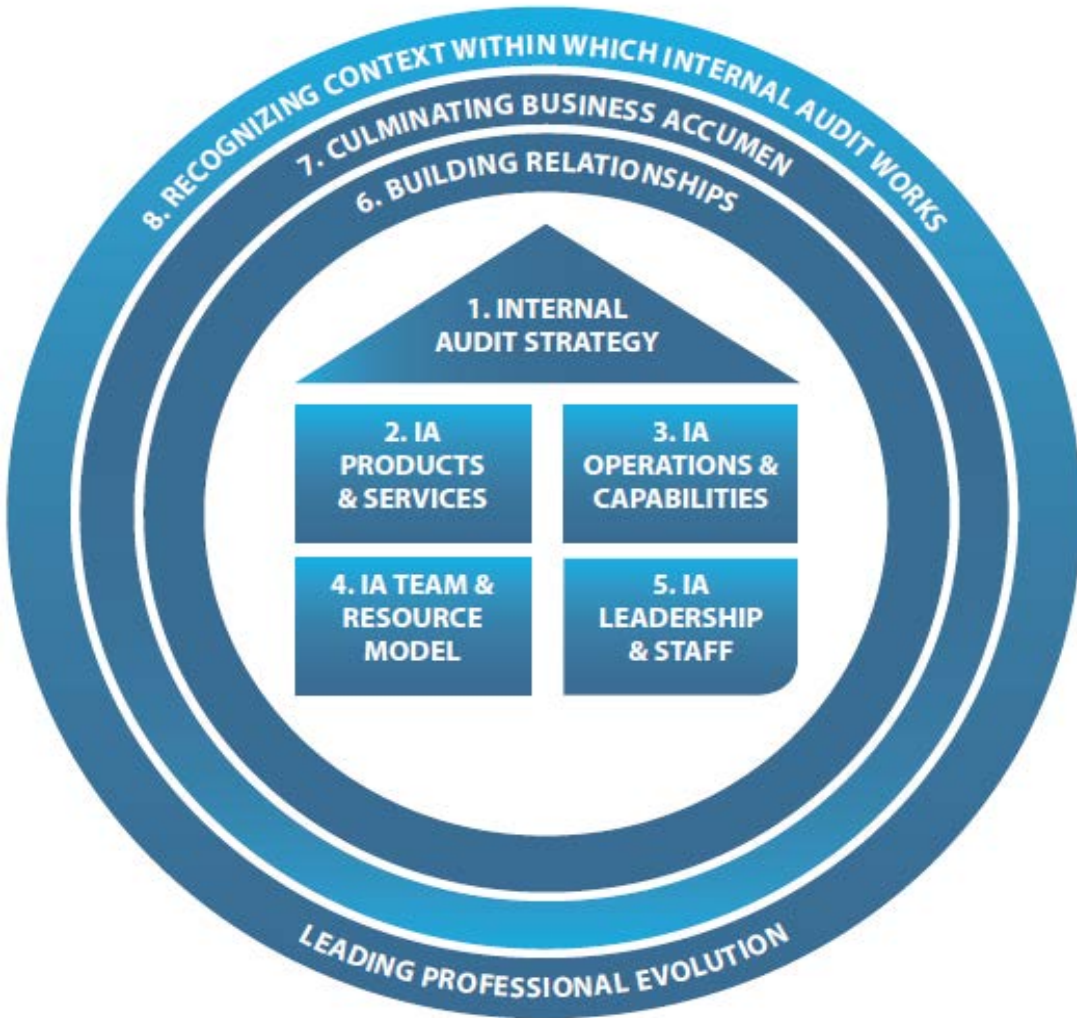
## CIA Exam: FAQs



Updated. Aligned. Focused.

October 2017

# Sawyers 7<sup>th</sup> Edition – Setting Up the IA Shop



Chapter 1: Developing an Internal Audit Strategy

Chapter 2: Defining Internal Audit Products and Services

Chapter 3: Developing Internal Audit Operations and Capabilities

Chapter 4: Defining the Internal Audit Team and Resourcing Model

Chapter 5: Developing Internal Audit Leaders and Staff

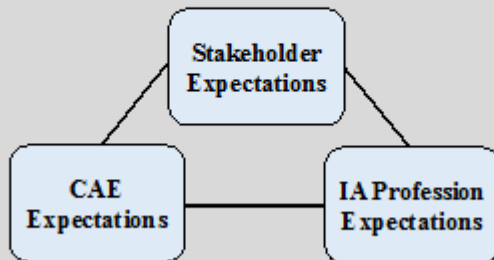
Chapter 6: Building Relationships and Setting Expectations

Chapter 7: Cultivating Business Acumen

Chapter 8: Understanding the Context within which Internal Audit Works

# Examples from CH 1

**Exhibit 1-1:  
Three Cornerstones of Internal Audit Strategy**



**Exhibit 1-2  
Value Drivers of Stakeholders' Expectations**

Stakeholders	Value Proposition	Value Drivers
Board and Senior Management Expectations	Customer	Cover objectives and risk profile
		Help improve risk management, controls, governance
		Monitor progress of improvements
		Retain adequate resources
		Contain audit costs
		Maintain efficient, effective processes
Other Internal Stakeholder Expectations	Recipients of internal audit services	Fair efforts
		Influence results
	Second line of defense professionals	Cooperation
		Coordination
		Support
	Internal audit staff members	Support
		Purposeful work
		Development
	External Stakeholder Expectations	External auditor
Information		
Regulator		Cooperation



# Examples from CH 2


Exhibit 2-2  
EVOLUTION IN INTERNAL AUDIT PRODUCTS AND SERVICES

	Type of Services	Resources Required	Typical Products	Value for Management and the Board
<b>Objective-based Auditor</b>	<ul style="list-style-type: none"> <li>Places risk management-based efforts in the context of the specific business objectives at risk by building</li> </ul>	<p><b>Skills:</b> Deeper knowledge of business objective development, dissemination and measurement in addition to skills below</p> <p><b>Resources:</b> Business models,</p>	Risk assessments integrated with risk management efforts, audit and advisory services focused on helping business	Internal audit takes ownership for communicating risk in terms management understands as it works toward achievement of
<b>Risk Management-Based Auditor</b>	<ul style="list-style-type: none"> <li>Evaluation of risk management expectations first in risk assessment and audit program development,</li> </ul>	<p><b>Skills:</b> Business understanding of how controls are developed in natural course of business, ERM</p> <p><b>Resources:</b> Business Acumen Education, ERM Frameworks,</p>	Risk assessments focused on top strategic and operational risks, assurance and advisory services focused on expected risk	Internal audit places risks and findings in context of risk management structures and tools management should be developing and used as
<b>Risk-based Auditor</b>	<ul style="list-style-type: none"> <li>Risk assessments occur at least annually</li> <li>Engagements planned and findings identified by risk</li> </ul>	<p><b>Skills:</b> Risk assessment, risk ranking</p> <p><b>Resources:</b> Risk frameworks, risk analysis examples and tools</p>	Risk assessments include important operational areas. Risk-based audit reports with ranking of findings; Advisory	Internal audit uses risks to define priorities for management and the board; Risk assessments, assurance and project
<b>Internal Control Process Auditor</b>	<ul style="list-style-type: none"> <li>Financial and important operational process control evaluation</li> </ul>	<p><b>Skills:</b> Process narratives/flowcharts added to the skills below</p> <p><b>Resources:</b> internal control and process mapping added to resources below</p>	Internal audit reports include more financial and operational process control findings, more root cause analyses	Operational process control understanding and role in contributing to financial and compliance risks and findings
<b>Internal-External Auditor</b>	<ul style="list-style-type: none"> <li>Financial statement assurance</li> <li>Compliance with standards/regulations</li> <li>Compliance with</li> </ul>	<p><b>Skills:</b> Financial accounting, internal controls, regulations, policies</p> <p><b>Resources:</b> Accounting standards, regulations, organizational policies</p>	Internal audit reports focused on financial reporting or compliance findings	Financial reporting assurance, compliance assurance

EXHIBIT 3-1  
History CMM to CMMI

EXHIBIT 3-3  
Internal Audit Operations Maturity Model

Component	Services, Products, and The Role of Internal Audit	People Management	Professional Practices (Operations)	Performance Management and Accountability	Organizational Relationships and Culture	Governance Structures (Environment)
Relevant Chapters	2	4, 5	1, 3, 4, 7, 8, 14	1, 2, 8	6	1, 7
<b>Level 5 – Optimizing</b>	Internal Audit is recognized as key partner (Objective)	Leader/auditor growth strategy; Leadership involvement with professional bodies	Continuous improvement in professional practices; internal audit integration in risk management	Internal audit function value, position, and performance delivered to organization	Board and executive influence facilitates ideal	Independence, power, and authority of the internal audit function; clear risk management
<b>Level 4 – Managed</b>	Overall assurance on governance, risk	Formal leadership and staff performance program; internal audit function	Internal audit strategic and operational planning; collaboration with risk	Internal audit annual reporting; strategies and capabilities	CAE advises and influences top-level management and	Independent oversight of the internal audit function; CAE reports to top-level authority
<b>Level 3 – Defined</b>	Advisory & assurance services (Risk Based)	Development planning for leaders and staff professionally certified	Defined internal audit operations (alignment of people, processes and technology)	Performance measures; cost information Internal audit	Coordination with other review groups; integral	Management oversight and support of the internal audit function; internal audit operating
<b>Level 2 – Repeatable</b>	Financial and compliance validation	Individual professionals Certified Internal Auditors	Professional practices and processes framework (internal audit framework formally)	Internal audit business plan	Managing within the internal audit function	Full access to the organization's information, Assets, and people reporting relationships
<b>Level 1 – Initial</b>	Ad hoc and unstructured; isolated single engagements or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; internal auditors likely part of a larger organizational unit; no established capabilities; therefore, no specific key process areas.					



**Incomplete**

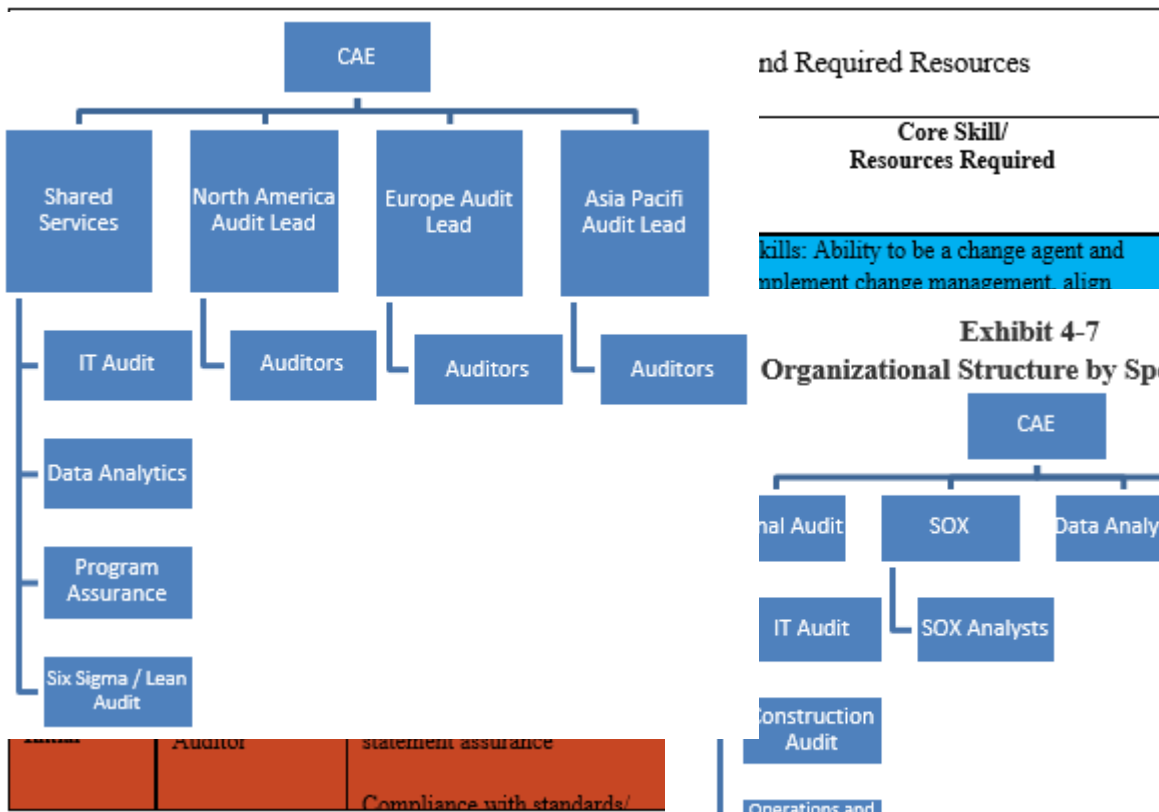
- Incomplete approach to meeting the intent of the CAE
- May or may not be meeting the intent of any practice
- Inconsistent performance**

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# Examples from CH 4-5

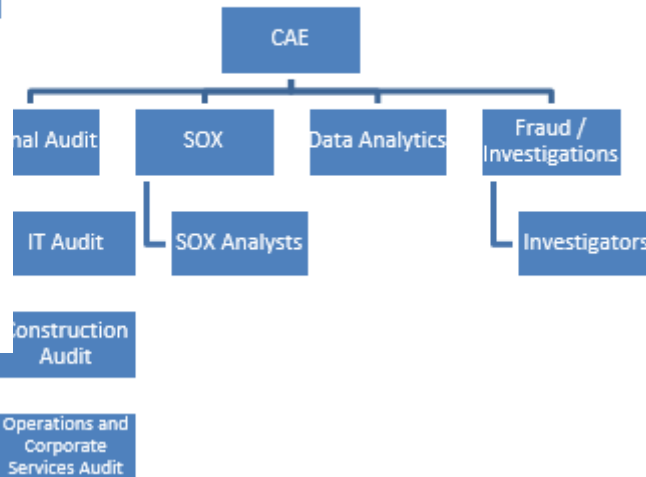


and Required Resources

Core Skill/  
Resources Required

Skills: Ability to be a change agent and implement change management, align

**Exhibit 4-7**  
**Organizational Structure by Specialization**

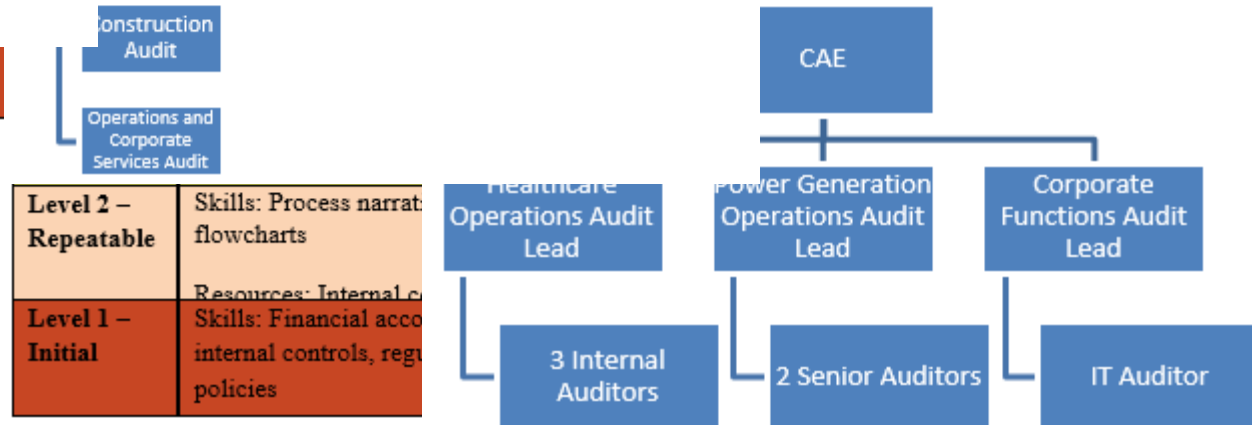


ed Job Positions

Professional Certification	Potential Internal Audit Job Positions
Certifications related to	Could include specialty director

**Exhibit 4-6**

**Organizational Structure by Business Segment**



**Level 2 – Repeatable**  
Skills: Process narrative, flowcharts

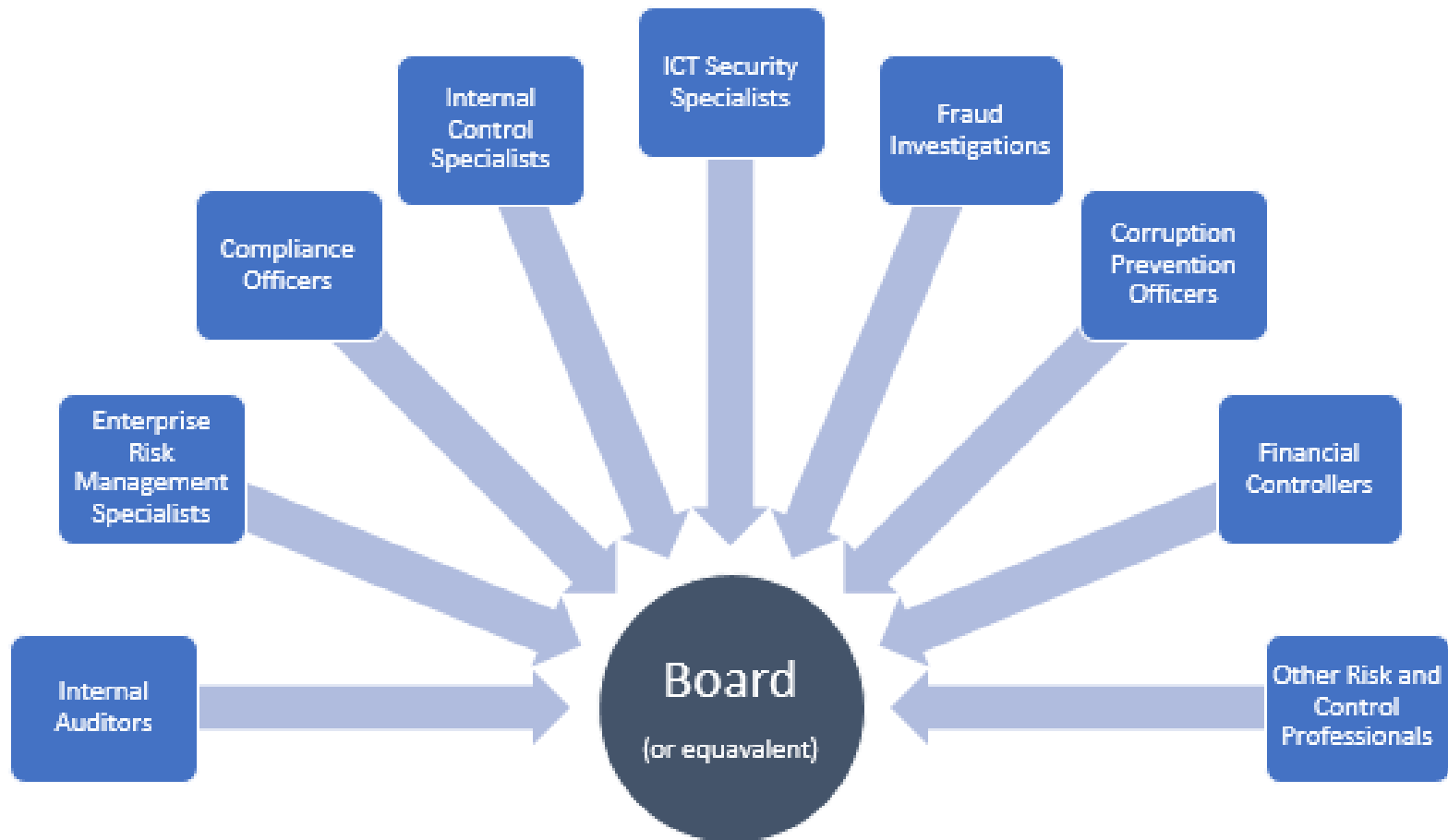
**Level 1 – Initial**  
Resources: Internal controls, regulatory policies

Auditor  
statement assurance  
Compliance with standards/

# Examples from CH 6-8

## Exhibit 8-4

### Common sources of audit, governance, risk, and compliance information for Boards



# Sawyers 7<sup>th</sup> Edition – Delivering IA Services

Chapter 9: The Internal Audit Mission and Its Risks

Chapter 10: Risk Assessment and Audit Planning

Chapter 11: Planning the Audit Engagement

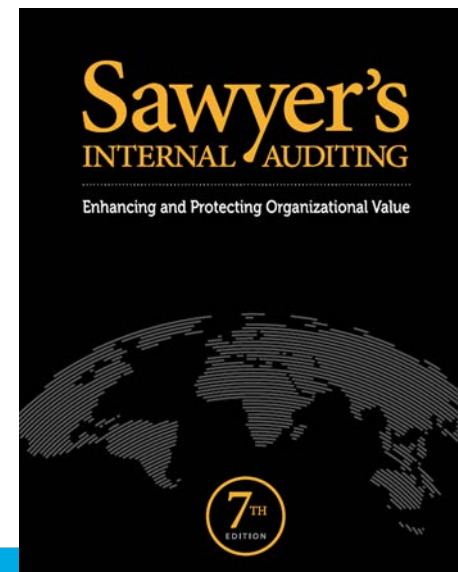
Chapter 12: Assessing Internal Control

Chapter 13: Audit Communication (Reporting and Follow-up)

Chapter 14: Assembling and Supervising the Internal Audit Team

Chapter 15: Specialty Skill Areas

Chapter 16: Advisory Services



# Example from CH 10 Risk Assessment

Exhibit 10-1

Maturity of Internal Audit Value, Services, and Products

Level	Type of Services	Types of Products	Value of Internal Audit
<b>Level 5</b>	<ul style="list-style-type: none"> <li>Places risk management-based efforts in the context of the specific business objectives at risk by building on the prior levels below</li> </ul>	<ul style="list-style-type: none"> <li>Risk assessments integrated with risk management efforts.</li> <li>Assurance and advisory</li> </ul>	<ul style="list-style-type: none"> <li>Internal audit takes ownership for communicating risk in terms</li> </ul>
<b>Level 4</b>	<ul style="list-style-type: none"> <li>Evaluation of risk management expectations first in risk assessment and audit program development, focused on strengthening controls</li> </ul>	<ul style="list-style-type: none"> <li>Risk assessments focused on top strategic and operational risks.</li> <li>Assurance and advisory services</li> </ul>	<ul style="list-style-type: none"> <li>Internal audit places risks and findings in terms of risk management structures and</li> </ul>
<b>Level 3</b>	<ul style="list-style-type: none"> <li>Advisory services are provided.</li> <li>Risk assessments are</li> </ul>	<ul style="list-style-type: none"> <li>Risk assessments that include important operational areas.</li> <li>Risk-based audit reports with</li> </ul>	<ul style="list-style-type: none"> <li>Internal audit uses risks to define priorities for management and the board.</li> </ul>
<b>Level 2</b>	<ul style="list-style-type: none"> <li>Evaluation of financial and important operational process</li> </ul>	<ul style="list-style-type: none"> <li>Audit reports that include findings related to financial and operational process control</li> </ul>	<ul style="list-style-type: none"> <li>Internal audit contributes to understanding and mitigation of financial and</li> </ul>
<b>Level 1</b>	Internal-external auditor services are provided and focus on:	<ul style="list-style-type: none"> <li>Audit reports focused on financial reporting and noncompliance findings.</li> </ul>	<ul style="list-style-type: none"> <li>Internal audit provides financial reporting assurance.</li> </ul>

# Examples from CH 11 – Audit Plan

**Exhibit 11-1**

**Planning Considerations by Type of Engagement**

Product/Service Maturity	Type of Services/Products	Typical Deliverables	Specific Planning Considerations
Level 5 – Optimized	<ul style="list-style-type: none"> <li>Places risk management-based efforts in context of the specific business</li> </ul>	<ul style="list-style-type: none"> <li>Risk assessments integrated with risk management efforts</li> </ul>	<ul style="list-style-type: none"> <li>Risks are focused on strategic and business priorities</li> </ul>
Level 4 – Managed	<ul style="list-style-type: none"> <li>Evaluation of risk management expectations first in risk assessment</li> </ul>	<ul style="list-style-type: none"> <li>Risk assessment focused on top strategic and</li> </ul>	<ul style="list-style-type: none"> <li>Internal audit has a clear understanding of strategic and</li> </ul>
Level 3 – Defined	<ul style="list-style-type: none"> <li>Assurance services expand on Levels 1 and 2</li> <li>Advisory services are</li> </ul>	<ul style="list-style-type: none"> <li>Risk assessments that include important</li> </ul>	<ul style="list-style-type: none"> <li>Internal audit performs a detailed risk assessment of</li> </ul>
Level 2 – Repeatable	<ul style="list-style-type: none"> <li>Evaluation of financial and important operational process controls</li> </ul>	<ul style="list-style-type: none"> <li>Audit reports that include findings related to financial</li> </ul>	<p>In addition to the considerations in Level 1:</p> <ul style="list-style-type: none"> <li>What flowcharts</li> </ul>
Level 1 – Initial	Internal-external auditor services are provided and focus on:	<ul style="list-style-type: none"> <li>Audit reports focused on financial reporting and non-</li> </ul>	<ul style="list-style-type: none"> <li>What systems and vendors are used to maintain books and</li> </ul>



# Examples from CH 12 – Internal Control

**Exhibit 12-1**  
**Applying Risk and Control Definitions by Type of Engagement**

Product/Service Maturity	Type of Services/Products	Risk Definition Focus	Control Definition Focus
Level 5 – Optimized	<ul style="list-style-type: none"> <li>Places risk management-based efforts in context of the specific business</li> </ul>	<ul style="list-style-type: none"> <li>Risk definition is simplified as the effect of uncertainty</li> </ul>	<ul style="list-style-type: none"> <li>Control actions align more clearly with processes of strategic</li> </ul>
Level 4 – Managed	<ul style="list-style-type: none"> <li>Evaluation of risk management expectations first in risk assessment</li> </ul>	<ul style="list-style-type: none"> <li>Risk identification and response becomes an assumed</li> </ul>	<ul style="list-style-type: none"> <li>Control expands to include expectations of good management</li> </ul>
Level 3 - Defined	<ul style="list-style-type: none"> <li>Assurance services expand on Levels 1 and 2</li> <li>Advisory services are</li> </ul>	<ul style="list-style-type: none"> <li>Risk becomes a management perspective on what</li> </ul>	<ul style="list-style-type: none"> <li>Control definitions are less tangible and more focused on what stops</li> </ul>
Level 2 - Repeatable	<ul style="list-style-type: none"> <li>Evaluation of financial and important operational process controls</li> </ul>	<ul style="list-style-type: none"> <li>Risk expands to include ineffective and inefficient</li> </ul>	<ul style="list-style-type: none"> <li>Controls expand focus to include process documentation</li> </ul>
Level 1 – Initial	Internal-external auditor services are provided and focus on:	<ul style="list-style-type: none"> <li>Risks are defined by non-compliance with standards and</li> </ul>	<ul style="list-style-type: none"> <li>Controls are focused on transactional accuracy and</li> </ul>

# Conclusion

- Enhancing and Protecting Organizational Value
  - Requires the CAE to understand the value their organization is producing
  - Requires the CAE to align their services and products to add to that value
  - The future is one that will include Collaborative IA connecting the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> lines of defense around assurance and management of risk
- *Add link to pre-order...available January 2019*

# Contributing Professionals

## Contributing Authors

- Hans Beumer (Switzerland)
- Dan Clayton (USA)
- Farah Araj (UAE)
- Michael Levy (USA)
- Jenitha John (S.Africa)
- Jason Mefford (USA)
- Bruce Turner (Australia)
- Andrew Cox (Australia)
- Cris Shreve (USA)
- Angie Chin (USA/Brazil/Asia)

## Technical Editors

- Paul Sobel (USA)
- Dan Clayton (USA)
- Angie Chin (USA/Brazil/Asia)
- Cris Shreve (USA)

## Advisory Committee

- Larry Rittenberg (USA)
- Mark Salamasick (USA)
- Angie Chin (USA/Brazil/Asia)