

Factsheet: Internal Audit Evolution

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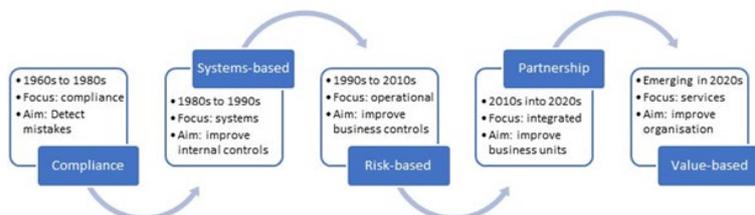
Introduction

Internal audit has evolved over time, moving from a largely one-dimensional approach to the service it delivers, to an approach offering more dynamic and flexible service offerings and approaches for the audit committee and management.

Adoption of the ‘Definition of Internal Auditing’ (see later) reflected two important elements:

- > Acceptance that internal audit could in fact provide both assurance and consulting (advisory) services.
- > The scope of internal audit work had broadened from pure controls to risk management, control and governance.

The evolution of internal auditing over the last half-century is illustrated in the following diagram. The services focus is explained in the IIA-Australia White Paper ‘Internal Audit Service Catalogue’.



Modern understanding of governance states that internal audit is there to do more than just confirm compliance and tell management what they already know. Audit committees and management are seeking ever greater value from internal audit with a view to improving the business. The contemporary role of internal auditing is reflected in its definition, mission and principles contained in the ‘International Professional Practices Framework’ (IPPF).

The definition of ‘internal audit’ is:

An independent, objective assurance and consulting activity designed to add value and improve an organisation’s 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.

Source: ‘International Professional Practices Framework’ issues by the Internal Audit Foundation

Audit committees and management are seeking value from internal audit and internal audit should be keen to deliver it. After all, internal audit works for the organisation and should have a keen interest in seeing it do well.

Evolution of Internal Audit?

It is documented elsewhere how historians have traced the roots of internal auditing back thousands of centuries as merchants verified receipts for grain brought to market. The real growth of the profession occurred in the 19th and 20th centuries with the expansion of corporate business. Demand grew for systems of control in companies conducting operations in many locations and employing thousands of people. Many people associate the genesis of modern internal auditing with establishment of the Institute of Internal Auditors.

This Factsheet examination of internal audit evolution does not go back further than contemporary internal auditing in the mid-1900s. The evolution of internal audit outlined in the table on the following page shows how internal audit work has evolved over time:

Checking – up to 1960s – Simple checking of transactions to ensure correctness that often involved checking 100% of transactions.

Compliance – 1960s–1980s – Simple compliance audits of individual business activities and transactions with a cyclical approach to cover every organisation activity over a number of years.

System-Based – 1980s–1990s – Introduced the concept of end-to-end audits of system controls but maintained a cyclical approach to cover every organisation activity over a number of years.

Risk-Based – 1990s–2010s – Internal audit accepted that limited budgets meant it could not audit everything, and also that some lower risk activities might not warrant the cost of an audit.

Partnership – 2010s – Internal audit and management actively work together for the common good and success of their organisation, with internal audit maintaining its independence.

Value-Based – emerging – A methodology where internal auditors perform forward-looking internal audit services to offer insights and actively seek innovation to improve an organisation, seeking to do this from the audit client perspective. Value-based auditing is where the internal audit profession is heading – not many internal audit functions are there yet, but it is an emerging trend.

The table on the following page illustrates the evolution of internal audit – where it came from and where it is going.

Evolution of Internal Audit						
Features	Checking Up to 1960s	Compliance 1960s – 1980s	System-based 1980s – 1990s	Risk-based 1990s – 2010s	Partnership 2010s –	Value-based Emerging
Independence	Independent of activities audited	Independent of activities audited	Independent of activities audited			
Serving	Finance	Finance	Finance / Business units	Business units	Organisation	Organisation
Reporting to	Generally CFO	Generally CFO	Generally CFO	Emerged to CEO and then Audit Committee reporting	Audit Committee for operations / CEO for administration	Audit Committee for operations / CEO for administration
Objective	Assurance	Assurance	Assurance	Assurance	Assurance and advisory / Value-adding	Assurance and advisory / Value-adding / Proactive / Offer insights / Key agent of change
Focus	Historical	Historical	Historical	Historical	Forward-looking	Forward-looking / Insights
Coverage	Controls	Controls	Controls	Controls	Governance / Risk management / Controls	Governance / Risk management / Controls
Outcome	Detect mistakes	Detect mistakes	Improve controls	Improve business unit controls	Improve business units	Improve organisation / Actively seek innovation / Help organisation achieve strategic intent
Fraud focus	Detect fraud	Detect fraud	Detect fraud	Detect fraud	Prevent fraud	Prevent fraud
Reports go to	Management	Management	Management	Management / Emerged to Audit Committee	Management and Audit Committee	Management and Audit Committee
Standards	No	Internal Audit Standards in 1978	Internal Audit Standards	Internal Audit Standards	Internal Audit Standards	Internal Audit Standards
Resourcing	In-house	In-house	In-house	In-house / Emerged to co-sourced	Co-sourced / Subject matter experts and guest auditors	Co-sourced / Subject matter experts and guest auditors
Staff qualifications	Financial	Financial	Financial	Financial	Some non-financial disciplines	Many non-financial disciplines
Planning	Cyclical annual plan	Cyclical annual plan	Cyclical 5-year plan	Risk-based 3-year plan	Risk-based 3-year or annual plan	Risk-based rolling plan
Audit types	Compliance	Compliance	System	Operational	Integrated	Service catalogue
Management requested services	No	No	No	Some	Yes	Yes - many

Useful References

Cox, Andrew, 2022. Whitepaper: Internal Audit Service Catalogue. [Online]

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