

Factsheet: Internal Audit versus External Audit

Auditors of all types must be incisive, focused and diligent with a strong sense of purpose, integrity and ethics. However, the difference between Internal Audit and External Audit is not always well-understood.

Internal Audit		External Audit
Employees of the organisation, or can be an independent entity through outsourced or cosourced arrangement.	Status	Appointed from outside the organisation (independently appointed in the public sector).
Independent of activities audited and independent of management; truly independent.	Independence	Independent of management and the governing body (including board of directors).
Serves the needs of the organisation as a whole; in particular the audit committee, chief executive officer and senior management.	Serving	Serves third parties that need reliable financial information, including shareholders (corporate sector) and parliament (public sector).
Audit committee functionally for operations and chief executive officer for administration.	Reports to	Shareholders and board of directors.
Varies according to the audit; focus on evaluating controls designed to assure the accomplishment of the organisation's goals and objectives.	Objective	True and fair view of financial statements.
Forward-looking.	Focus	Historical events as expressed in the financial statements.
Reviews governance, risk management, and control processes according to risk-based need.	Coverage	Reviews records supporting the financial statements (usually annually).
Helps organisation to enhance and protect organisation value and accomplish objectives	Outcome	Opinion on financial statements
Is directly concerned with the prevention of fraud in any activity reviewed.	Fraud	Incidentally concerned with prevention and detection of fraud in general, but is directly concerned when financial statements may be materially affected by fraud.
Management and audit committee.	Reports go to	Shareholders, regulators, board of directors and audit committee.
Internal audit standards (IPPF).	Standards	External audit standards.
Not mandatory, though there is a shift in some jurisdictions to require the chief audit executive to have appropriate qualifications and certifications	Qualifications	Mandatory.