White Paper –
Internal Audit Service Catalogue

March 2017

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1. Background

1.1 Purpose
The purpose of this White Paper is to identify ways in which Internal Audit can move from a largely one-dimensional approach to the service it delivers, to an approach offering more dynamic and flexible service offerings to the Audit Committee and management.

1.2 Background
The evolution of Internal Audit outlined in the table on the following page shows how internal audit work has evolved over time.

Internal auditors who have a lengthy career with internal auditing can generally identify points in time when the focus and emphasis of internal audit activities changed. This was often over a period of time, for example the ‘assurance versus consulting’ debate that occurred in the 1990s and resulted in the ‘Definition of Internal Auditing’ being changed to:

*Internal auditing 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 processes.*


This change 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.

At the time, this philosophy was hotly debated (and still is in some circles), but it is indisputable the mantra of modern management is that Internal Audit is there to do more than just confirm compliance and tell management what they already know.

These days, Audit Committees and management are seeking a lot more value from Internal Audit, with a view to improving the business. After all, Internal Audit works for the organisation and should have a keen interest in seeing it do well.
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<td>Generally CFO</td>
<td>Generally CFO</td>
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<td>Forward-looking; insights</td>
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<td>Detect mistakes</td>
<td>Detect mistakes</td>
<td>Improve controls</td>
<td>Improve business unit controls</td>
<td>Improve business units</td>
<td>Improve organisation; actively seek innovation</td>
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<td>Detect fraud</td>
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<td>Management; emerged to Audit Committee</td>
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<td>Co-sourced; subject matter experts and guest auditors</td>
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<td>Risk-based 3-year plan</td>
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<td>System</td>
<td>Operational</td>
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<td>No</td>
<td>No</td>
<td>Some</td>
<td>Yes</td>
<td>Yes; many</td>
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</table>
2. Discussion

2.1 Issue

The issue to be discussed is:

*How can Internal Audit offer more dynamic and flexible service offerings to the Audit Committee and management?*

2.2 Discussion

Internal Audit generally performs internal audit engagements derived from the organisation's higher risk areas matched to the available internal audit resources. Over time the scope of services has expanded, with Internal Audit functions offering additional services such as advisory services and management requested services.

Internal Audit has the ability to offer a comprehensive range of services which could be contained in an internal audit service catalogue. It is reasoned a range of services can better serve an organisation, whilst spreading the internal audit budget and resources further.

Examples of elements which could comprise an internal audit service catalogue are described below, followed by a table showing the features of various service offerings.

However, it should be noted the decision on whether to deploy a particular service should rest with the Chief Audit Executive in consultation with the Audit Committee.

The Chief Audit Executive should periodically report to the Audit Committee the types of services provided to the organisation, and how these added value.

2.3 Possible Service Offerings

**Internal audit engagements**

An internal audit engagement is the traditional method used to perform audit work. The objective is to assess evidence and provide an independent opinion on the quality and effectiveness of risk management, control and governance processes of the area being audited. Engagements are performed in phases – planning, fieldwork and reporting.

Operational audits should generally be performed as they offer greater value than a simple compliance or finance audit. An operational audit will cover a wider range and include efficiency, effectiveness, economy and ethics of the area being audited.

**Acquisition assurance**

Internal Audit can provide input to the due diligence process when an acquisition is being considered. This may include such things as assisting with:

- Investigation of material future matters.
- Examination to help answer key questions such as – how to buy, how to structure, and how much to pay.
- Investigation of the company policies, processes and practices.
- Examination to assist an acquisition decision through valuation and shareholder value analysis.
**Assurance advisory services**

Management may request Internal Audit to provide assurance advisory services. This service differs from traditional internal audit engagements and may involve advisory work around governance, risk management and control matters.

**Management requested services**

Internal Audit can offer ‘on demand’ services by way of management requested reviews in areas where business issues may occur or emerging risks arise.

Internal Audit attempts to satisfy these requests, subject to the assessed level of risk, availability of resources, and endorsement of the Audit Committee.

**Business unit control advisory**

Management may request Internal Audit to perform a review of their business unit controls to assure their control environment is operating effectively and risks are being mitigated. The reviews are designed to encompass business unit activities, with special attention on higher risk activities.

The report includes gap analysis, with the output being an improvement roadmap to strengthen the control environment where opportunities are identified.

**Health checks**

Management may request Internal Audit to perform a quick health check of a part of their business unit.

The idea is to quickly evaluate the health of the area reviewed to assess the state of its governance, risk and control environment.

**Multi-stage audits**

Internal Audit can have a role in relation to projects and major business initiatives where there are often major organisation risks, for example ICT projects.

One method used successfully in organisations is the concept of multi-stage audits. These can be a valuable assurance tool, especially for auditing projects and business improvement initiatives which will be planned and implemented over a period of time. The idea is that Internal Audit can provide assurance by adopting a life cycle audit approach through ‘short and sharp’ audits at key stages.

This provides immediate feedback as the implementation progresses and any areas requiring remedial action can be addressed at the time. It is widely acknowledged this approach is cost-effective, provides added assurance, improves outcomes, and reduces later rework than the alternative, which is a post-implementation audit some time after completion.

**Project assurance**

Internal Audit can provide assurance services for major projects to:

- Provide an assurance link between a project and the steering committee.
- Review governance arrangements from project inception to completion.
- Provide reports over the life of a project to report and highlight the quality of governance arrangements.
- Recommend improvements where identified.

Project assurance work generally focuses on effectiveness of governance, risk management, scope, schedule, cost, quality, and artefact alignment to the project management methodology.

It is a good practice for the Chief Audit Executive to periodically attend key board or executive compliance committee meetings as an observer, and report on significant insights to the Audit Committee.
Procurement advisory

Procurement processes must be fair, open, transparent to all parties, and be defensible. Internal Audit can provide procurement advisory services through the life of major procurement activities to assure:

- Compliance with laws and policies.
- Effective management of conflicts of interest.
- Fairness and impartiality.
- Security and confidentiality.
- Open and competitive procurement process.
- Accountability – consistency and transparency of the procurement process.
- Proactive mitigation of probity risks.

The Internal Audit role may be as:

- Probity advisor – Advise the client, but not third parties unless specifically authorised.
- Probity auditor – Advise the client principally, but may also provide advice to third parties.

Preliminary reviews

Business unit management may seek ways to reduce risk in their activities. Where internal audit resources may be limited, or a detailed audit is not required at the time, Internal Audit can perform a preliminary review.

This would be a quick review of key business unit or program elements. It is not designed to be a comprehensive audit, rather an independent review to work in partnership with management to review risks and controls, then provide a brief roadmap and recommendations for improvement.

Generally the results would not be reported to the Audit Committee at the time. Later, Internal Audit would return and performed a more detailed audit to follow-up progress and effectiveness of implementation of recommendations. These results would then be reported to the Audit Committee.

One week reviews

With limited resources, Internal Audit cannot cover every part of the organisation with a traditional internal audit engagement approach. What can be done is to offer a limited assurance service through one week reviews.

These reviews seek to provide high level assurance through a ‘short and sharp’ review of a business area. They may take a few days to complete, with planning and reporting taking the elapsed time to one week.

Reviews of this nature do not profess to be as evidence-based as an internal audit engagement. What they seek to provide is a snapshot of risks and controls in a business area, together with improvement suggestions.

Risk and control improvement facilitation

When requested, Internal Audit can form a partnership with management to assist with risk and control improvement over business activities. This may include:

- Becoming a non-voting adviser to steering committees.
- Providing expert advice to assure activities adequately consider risks and controls.
- Facilitate workshops of key stakeholders to actively review and improve risks and controls.
• Prepare summary reports of activities and effectiveness of controls to manage risk.

**Control self-assessment (CSA)**

CSA is a technique that allows managers and work teams to participate in assessing their risk management and control processes. In its various formats, CSA can cover objectives, risks, controls and processes.

The first CSA step is to document control processes with the aim of identifying suitable ways of measuring or testing each control. The actual testing of the controls is performed by the staff whose day-to-day role is within the area being examined, as they have the greatest knowledge of how the processes operate.

The two common techniques for performing the evaluations are:

• Workshops that may be independently facilitated, involving staff from the business unit being tested.
• Surveys or questionnaires completed independently by staff.

Both approaches differ from formal audits where the auditors, not the business unit staff, perform the assessment.

On completion of the assessment, each control may be rated based on the responses received, to determine the probability of its failure and the impact if a failure occurred. These ratings can be mapped to produce a heat-map showing potential areas of vulnerability.

**Continuous auditing**

Processes subject to continuous auditing are generally the more stable and mature controls within the business, with sufficient data transactions to make the continuous audit investment worthwhile. Automating data analysis in the form of continuous auditing brings benefits including:

• Improved financial and operating controls.
• Rapid decision-making and business improvement.
• Real-time response to real-time issues.
• Implementing automated detective controls.

As Internal Audit becomes embedded within an organisation, projects may be scoped to consider introduction of continuous auditing for corporate and operational ICT systems. This initiative has potential to reduce the internal audit footprint for business units, whilst delivering greater audit coverage and providing timely exception reporting. It should ideally commence with a pilot project, after which a full roll-out over time could be considered.

**Forensic and fraud reviews**

A forensic review is different to an audit in that it is a detailed and focused examination of an issue or issues.

It is a specialty practice area that deals with actual or anticipated disputes or litigation. ‘Forensic’ means ‘suitable for use in a court of law’, and it is to that standard and potential outcome that forensic reviews are performed.

In most organisations, forensic reviews will be initiated in response to allegations of fraud or corruption. Categories of financial forensic engagements may include:

• Fraud and corruption.
• Economic damages calculations, whether suffered through tort or breach of contract.
• Post-acquisition disputes such as breaches of warranties.
• Bankruptcy, insolvency, and reorganization.
- Securities fraud.
- Tax fraud.
- Money laundering.
- Business valuation.
- Computer forensics.

Subsidiary assurance monitoring

There are two elements to the control environment:

- The organisation itself.
- The organisation subsidiaries, where these exist.

Risk-based assurance may be extended to subsidiaries to provide independent assurance in addition to their internal sources of assurance.

The extent of potential internal audit coverage would vary according to the risk profile of a subsidiary. For example, if a subsidiary's assurance environment is demonstrated to be strong, less secondary assurance from Internal Audit is likely to be necessary. Likewise, if the assurance environment is demonstrated to be weak, it may be necessary for greater Internal Audit involvement.

Special audits

From time-to-time, the Board of Directors, Audit Committee, Chief Executive Officer, or Executive Management may request Internal Audit to perform a special audit at a subsidiary.

A special audit is a limited scope examination of financial records or other information designed to investigate allegations of fraud, theft or misappropriation of funds. It may also seek to quantify the extent of losses.

Special audits are needed when it is suspected that laws or regulations have been violated in the financial management of an organisation. In conjunction with investigating violations, audits can be performed pertaining to duties, authorisations, responsibilities and controls.
# Example Internal Audit Service Catalogue

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<tr>
<th>Service offerings</th>
<th>Service Type</th>
<th>Source</th>
<th>Elapsed timeframe</th>
<th>Persuasive Evidence*</th>
<th>Opinion</th>
<th>Deliverable</th>
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<td>Assurance</td>
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<td>Report</td>
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<td>Advisory</td>
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<td>Quick</td>
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<td>No</td>
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<td>Assurance / Advisory</td>
<td>On request</td>
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</table>

* Audit evidence is any information used by the auditor to determine whether the information being audited is stated in accordance with established criteria. Two determinants of persuasiveness of evidence are (1) Competence – the degree to which evidence can be considered trustworthy (2) Sufficiency – amount of evidence is enough to form a reasonable opinion.
3. Conclusion

3.1 How to proceed
Chief Audit Executives seeking to broaden their Internal Audit service offerings could consider the following steps:

- Draft a brief paper on possible service offerings that may be suitable for their organisation.
- Discuss options with the Audit Committee.
- Discuss types of service offerings the Chief Executive Officer and Executive Management view as potentially the most valuable.
- Implement pilot activities to trial service offering candidates considered to be most useful.
- Seek Audit Committee and management feedback on results of pilot activities.
- Evaluate what worked well and what did not work as well as expected; modify service offerings as necessary; consider additional service offerings.
- Don’t try to do it all at once; have a phased plan to add more service offerings over time.
- Periodically report to the Audit Committee on the types of services provided to the organisation, and how these added value.

3.2 Summary
This White Paper describes the concept of an internal audit service catalogue to offer more dynamic and flexible service offerings to the Audit Committee and management.

For many internal auditors, this concept will be a quantum leap from a traditional internal audit approach, and one which may be strongly resisted.

Apart from resistance by some internal auditors, there are still some organisations where management believes Internal Audit comes in after the event to tell management what they got wrong.

More enlightened management will recognise the potential of an internal audit service catalogue.

Internal Audit needs to remain relevant. Otherwise, in hard times, Internal Audit risks being one of the first non-core areas to have its budget and resourcing cut.

By continually evolving its service offerings, Internal Audit can embed itself in the organisation as an agent of change, build its profile and reputation, and be truly valued by the Audit Committee and management.

3.3 Conclusion
Audit Committees and management are seeking a lot more value from Internal Audit to help improve the business.

An internal audit service catalogue has potential to further build the partnership between Internal Audit, the Audit Committee and management, whilst delivering a wider range of internal audit services offering more value to the organisation.
4. Bibliography and References

References


*Internal Audit in Australia*, Institute of Internal Auditors–Australia, 2016


*White Paper – Auditing your entity’s Compliance Framework*, Institute of Internal Auditors–Australia, 2016

**Purpose of White Papers**

A White Paper is an authoritative report or guide that informs readers concisely about a complex issue and presents the issuing body’s philosophy on the matter. It is meant to help readers understand an issue, solve a problem, or make a decision.

5. Author’s Biography

This White Paper written by:

**Andrew Cox**

MBA, MEC, GradDipSc, GradCertPA, DipBusAdmin, DipPubAdmin, AssDipAcctg, CertSQM, PFIIA, CIA, CISA, CFE, CGAP, CSQA, AIPA, AFA, MACS Snr, MRMIA

Andrew Cox is the Manager of Quality Services at the IIA–Australia, responsible for technical matters and running the IIA–Australia consulting business. He has extensive experience in governance, audit and risk management. He has previously been a Chief Audit Executive at significant organisations.

He further developed the Internal Audit Quality Assessment process in Australia and has performed more than 100 Quality Assessments of Internal Audit functions in corporate and public sector organisations in Australia, Qatar, Saudi Arabia and the United Arab Emirates.

He has worked in Australia, Afghanistan, Bangladesh, Fiji, France, Ghana, Indonesia, Iraq, Kuwait, Malaysia, Netherlands, New Zealand, Papua New Guinea, Qatar, Saudi Arabia, Uganda, United Arab Emirates, UK and USA.

He has made presentations on internal auditing in forums in Australia and internationally, and has taught internal auditing in Australia and other countries. He authored the IIA–Australia publication ‘Internal Audit in Australia’. He previously served in Australia as chair of the IIA–Australia Canberra Chapter, and before that as chair of the IIA–Australia Northern Territory Chapter.

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**Bruce Turner AM**

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6. About the Institute of Internal Auditors–Australia

The Institute of Internal Auditors (IIA) is the global professional association for Internal Auditors, with global headquarters in the USA and affiliated Institutes and Chapters throughout the world including Australia.

As the chief advocate of the Internal Audit profession, the IIA serves as the profession’s international standard-setter, sole provider of globally accepted internal auditing certifications, and principal researcher and educator.

The IIA sets the bar for Internal Audit integrity and professionalism around the world with its ‘International Professional Practices Framework’ (IPPF), a collection of guidance that includes the ‘International Standards for the Professional Practice of Internal Auditing’ and the ‘Code of Ethics’.

The IPPF provides a globally accepted rigorous basis for the operation of an Internal Audit function. Procedures for the mandatory provisions require public exposure and formal consideration of comments received from IIA members and non-members alike. The standards development process is supervised by an independent body, the IPPF Oversight Council of the IIA, which is appointed by the IIA–Global Board of Directors and comprises persons representing stakeholders such as boards, management, public and private sector auditors, regulators and government authorities, investors, international entities, and members specifically selected by the IIA–Global Board of Directors.

The IIA–Australia ensures its members and the profession as a whole are well-represented with decision-makers and influencers, and is extensively represented on a number of global committees and prominent working groups in Australia and internationally.

The IIA was established in 1941 and now has more than 180,000 members from 190 countries with hundreds of local area Chapters. Generally, members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.

Historians have traced the roots of internal auditing to centuries BC, 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 the establishment of the Institute of Internal Auditors.

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