

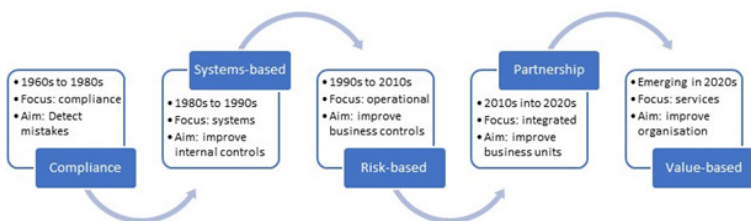
Factsheet: Internal Audit Consulting

Evolution of internal auditing

The internal audit profession has evolved over time. The adoption of the current '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 diagram below, with further details contained in the IIA-Australia Factsheet: 'Evolution of Internal Audit'. The services focus is explained in the IIA-Australia White Paper: 'Internal Audit Service Catalogue'.



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 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:

"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."

Internal audit lives within the organisation, so internal auditors should want the organisation to be successful and actively contribute to achieving that. Internal audit advisory services can help.

Scope of internal audit work

The scope of internal audit work embraces the wider concept of corporate governance and risk, recognising that controls exist in organisations to manage risks and promote effective and efficient governance and performance. The types of internal audit work will generally encompass:

Assurance services	Consulting (advisory) services
An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organisation. Examples may include financial, performance, compliance, system security, and due diligence engagements.	Advisory and related client service activities, the nature and scope of which are agreed with the client and are intended to add value and improve an organisation's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

If your internal audit function offers consulting (advisory) services, consider the following steps.

Step 1 – Build time into your internal audit plan

To provide advisory services, an internal audit function needs to have time available to provide the service. Most management requests will be made in response to issues and emerging risks identified by management that were not known when the internal audit plan was prepared. So, unless there is unallocated time available, something will need to drop off the plan. Ideally, internal audit should consider making a percentage of the plan unallocated. In some organisations, this

can be as much as 25% of available internal audit time.

Step 2 – Make management aware of the service

It's not much use having unallocated time in the internal audit plan available for management requests if management doesn't know it's available. Internal audit needs to raise awareness of the service. If done properly, results will speak for themselves and 25% may not be sufficient unallocated time in the plan.

Awareness raising could take the form of an intranet 'advertisement', a brief guide to internal audit service offerings, or a more descriptive internal audit service catalogue.

When you do this, perhaps consider calling it 'advisory services' rather than consulting. In many cases, consulting means something different to management and use of the term can create confusion between management and internal audit about what the service actually is and does.

Step 3 – Respond Promptly

In most cases, management will only approach internal audit for an advisory task when something crops up and they need assistance quickly. In the old days, internal audit would then respond that the internal audit plan was fixed and perhaps management could wait until next year's plan, which reinforced management's perception that internal audit was neither helpful nor agile.

Hopefully those days are behind us and internal audit is now more receptive and client focused.

Step 4 – Don't do what management should do themselves

Internal audit should:

- › Make sure the management request is a legitimate advisory service – a problem can be that management may see internal audit as their resource and seek assistance for tasks they really should be doing themselves.
- › Run a risk ruler over requests for advisory services to make sure it addresses a significant risk, will provide 'bang for the buck' and be good use of internal audit resources.
- › Maintain independence.

The following diagram provides a guide for classifying the types of activities internal audit could consider as legitimate advisory services.

Example approach for classifying the types of consulting engagements

Simple	Important	Significant
<ul style="list-style-type: none"> • Low complexity • Quick turnaround • Helpful impact • Lower-level operational risk • Minimal resources needed • Time investment up to one day • Examples include policy and procedure changes; business continuity plans; minor control and business process enhancements; new product developments; new technology vendor selection • Team leader can approve • Short comments in CAE's report to audit committee • Typical nature - advice, training 	<ul style="list-style-type: none"> • More complex engagements • Longer duration (weeks) • Impacts on decision-making • Mid-level to strategic risks • Intermittent resourcing • Time required 5 to 10 days • Examples include restructuring; new systems; major business initiatives; role on steering committees; expansion of sites; executive onboarding • CAE to approve and then confirm with audit committee • Periodic report on activity and outcomes to audit committee • Typical nature - advice, facilitation 	<ul style="list-style-type: none"> • Highly complex engagements • Ongoing duration (months) • Requires audit signoff • Strategic-level risks • Ongoing resource commitment • Time required over 20 days • Examples include acquisitions; mergers; business closures and major reorganization; joint venture; critical systems under development; new business lines; plant overhaul • Audit committee to approve • Quarterly progress report on outcomes to audit committee • Typical nature - counsel, facilitation

Source: Bruce Turner, Team Leader's Guide to Internal Audit Leadership



Step 5 – Don't give up when the allocated time runs out

Even when there is no more unallocated time left, internal audit can still help, for example by:

- › Getting the business to pay from their budget for a service provider to provide the advisory service, with internal audit managing the engagement on behalf of business unit management.
- › Providing a short and sharp facilitated self-assessment approach, rather than a full scope service, to build a roadmap for management to implement. Internal audit could then consider whether to perform a more detailed piece of work after the roadmap has been implemented.
- › Providing advice and know-how to business unit staff on how to go about an advisory task, then keeping in contact throughout to provide input where it may be required.

Towards end of the year, if all unallocated time may not be used, bring forward a reserve audit topic on the plan to utilise the spare time.

Step 6 – Celebrate success

Record data on advisory services provided through the year, then make sure the value of advisory services is known around the organisation through such avenues as:

- › Internal audit annual report to the audit committee.
- › Reports to the senior management committee.
- › Information on internal audit intranet page.

Helpful references

- Fact sheet 'Evolution of Internal Audit', IIA–Australia
- 'Internal Audit in Australia – second edition', IIA–Australia
- 'International Professional Practices Framework', IIA–Global
- White Paper 'Internal Audit Service Catalogue', IIA–Australia
- 'Team Leader's Guide to Internal Audit Leadership', Internal Audit Foundation, 2020