

Factsheet: Internal Auditing

Updated 2022

Introduction

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.

Internal audit is a key pillar of governance in any organisation. It is an important element in the governance and assurance environment, and a valuable tool to effectively manage risk. This applies to corporate, public sector and not-for-profit organisations. The increased importance of internal audit has been reflected in the most recent revision of the ASX 'Corporate Governance Principles and Recommendations' (Fourth edition, 2019) issued by the ASX Corporate Governance Council which adopted the position that, if listed organisations do not have an internal audit function, they need to disclose that fact and the processes it employs for evaluating and continually improving the effectiveness of its governance, risk management and internal control processes ('if not, why not' approach). The Australian Prudential Regulation Authority (APRA) has a mandated requirement for internal audit for financial institutions, and many governments in Australia require internal audit functions to be established.



Is Internal Auditing a Profession?

A profession requires:

- › A theoretical body of knowledge – internal auditing has the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA).
- › Relative independence in decision-making in practice

– internal auditors perform their work autonomously by using consistent practices aligned with professional standards contained in the IPPF.

- › Specialised education – internal auditing has specialised education and examinations, for example Certified Internal Auditor (CIA) or Graduate Certificate in Internal Audit (GradCertIA) offered by the IIA-Australia.
- › A code of ethics for behaviour of its members – internal auditing has its own Code of Ethics contained in the IPPF.

What Does Internal Audit Do?

- › Provides independent, unbiased assessment of organisation operations.
- › Provides management with information on the effectiveness of risk management, control and governance processes.
- › Acts as a catalyst for improvement in risk management, control and governance.
- › Is an adviser that tells management what it needs to know, when it needs to know it.

Internal Audit

Mission

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition

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.

- › Independent – Freedom to work in an unbiased manner.
- › Objective – Unbiased mental attitude with no compromises.
- › Assurance – Objective assessment of evidence to provide an independent opinion or conclusion.
- › Consulting – Advisory in nature and generally performed in response to a specific request by the audit committee or management.
- › Add value – Providing objective and relevant assurance, and contributing to effectiveness and efficiency of governance, risk management and control processes.
- › Systematic, disciplined approach – Leads to reliability and trustworthiness, and distinguishes an internal audit engagement from a casual enquiry.
- › Evaluate and improve – Internal audit needs to have an improvement focus for its own operations.

Core Principles

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organisation.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement.

Objectives

- › Review achievement of organisation objectives.
- › Assess if decisions are properly authorised.
- › Assess reliability and integrity of information.
- › Review that assets are safeguarded.
- › Assess compliance with laws, regulations, policies and contracts.
- › Assess efficiency, effectiveness, economy and ethical conduct of business activities.
- › Consider fraud risk scenarios.
- › Follow-up previous audits to assess if remedial action has been effectively implemented.
- › Look for business improvements and better ways of doing things.

Benefits

- › Being a partner to management.
- › Ensuring decision-makers get unfiltered messages.
- › Helping maintain organisation focus on achieving objectives.
- › Providing assurance that decisions are properly authorised.
- › Validating the reliability and integrity of information.
- › Delivering an opinion as to whether assets are adequately safeguarded.
- › Providing assurance the organisation is complying with laws, regulations, policies and contracts.
- › Determining whether business activities are conducted efficiently, effectively, economically and ethically.
- › Promoting activities that minimise the risk of fraud.
- › Identifying business improvements and better ways of doing things.
- › Monitoring high-risk programs and projects to ensure they remain on track.
- › Delivering in-house advisory services to management.

Value Proposition

- › Following-up previous audits to assess if remedial action has been effectively implemented.
- › Helping the chief executive officer keep their job.
- › Paying its way.

Helpful References

'Internal Audit in Australia – second edition', Institute of Internal Auditors-Australia
Factsheet 'Evolution of Internal Audit', Institute of Internal Auditors-Australia
Factsheet 'Internal Audit Benefits', Institute of Internal Auditors-Australia
Factsheet 'Internal Audit Consulting', Institute of Internal Auditors-Australia
White Paper 'Internal Audit Service Catalogue', Institute of Internal Auditors-Australia
'Team Leader's Guide to Internal Audit Leadership', Internal Audit Foundation
'International Professional Practices Framework', Internal Audit Foundation

