

Dear Q&A

How can management be convinced that a purely compliance audit approach is out of touch with modern internal audit practice?

My organisation is a not-for-profit service delivery organisation. The internal audit function has renewed its focus in recent times away from compliance 'tick a box' to a more risk-based operational audit approach that aligns audit priorities with the organisation's strategic risks.

There have been challenges with management pushing back on some audit topics, saying they are operational or strategic concerns of management and outside the scope of internal audit. Management says it finds value with internal audit focus on compliance and fraud detection.

How do we change the conversation with management and help them to see the value of internal audit beyond compliance?

Answer

The mission of internal audit is defined in the 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors (IIA) as:

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

Managers at all levels including chief executive officers may not be familiar with how modern internal audit should operate. This view can often come from managers not being exposed to how a contemporary value-adding internal audit function operates. Or management may not be keen for internal audit to look under rocks that could reveal secrets.

The IIA-Australia factsheet 'Evolution of Internal Audit' shows how internal audit has evolved over time. This clearly shows that a primary focus on compliance audit activities is out of touch with modern internal audit methodology.

https://iia.org.au/sf_docs/default-source/technical-resources/2018-fact-sheets/evolution-of-internal-audit.pdf?sfvrsn=2

Some ways in which internal audit may be able to make management more aware of what value-adding internal audit services look like could be:

- › Provide management with information on internal auditing, for example the IIA-Australia publication 'Internal Audit in Australia'.
<https://www.iia.org.au/technical-resources/publications/internal-audit-in-australia>
- › Arrange an information presentation to management on the value of modern internal auditing that includes case studies, for example:
<https://www.iia.org.au/technical-resources/case-studies> This could perhaps be presented by the audit committee chair.
- › Review the internal audit charter to ensure it is fit-for-purpose. The IIA-Australia has an 'Internal Audit Charter Checklist' and an 'Example Internal Audit Charter' available to members.
- › Check that audit committee membership has been selected by use of a skill matrix comprising industry knowledge in relation to the organisation's business, plus the various governance and assurance skills an audit committee needs. Not-for-profit organisations often have a board of like-minded people but may lack specific skills such as governance, assurance, risk management, financial statements, external audit and internal audit. Refer the IIA-Australia Factsheet 'Establishing a Skills-based Audit Committee'.
- › https://iia.org.au/sf_docs/default-source/technical-resources/2018-fact-sheets/fact-sheet-establishing-a-skills-based-audit-committee.pdf?sfvrsn=2

- › Ensure internal audit reporting arrangements are good practice and enshrined in the internal audit charter approved by the board:
 - › Functional reporting for internal audit operations to the audit committee through the chair.
 - › Administrative reporting to the chief executive officer.
This means the audit committee approves the risk-based internal audit plan and directs the scope of internal audit services. The chief executive officer role is not to direct internal audit, but to provide administrative support to internal audit that enables it to do its job.
- › Use the IIA-Australia 20 Critical Questions Series 'What Directors should ask about Not-for-Profit Governance' to conduct a short and sharp self-assessment of the organisation in collaboration with management, and present results to the audit committee and management.
<https://www.iaa.org.au/technical-resources/20-critical-questions-series>
- › An external quality assessment of the internal audit function to assess conformance with the IPPF and internal audit standards, and to gather feedback on internal audit effectiveness from the audit committee and management.
<https://iaa.org.au/consulting-and-quality>