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The Institute of
Internal Auditors
Australia

Whitepaper

Internal Audit Service Catalogue

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Background

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.

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.

Source: 'International Professional Practices Framework' issued by the Institute of Internal Auditors.

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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Evolution of Internal Audit						
Features	Checking Up to 1960s	Compliance 1960s – 1980s	System-based 1980s – 1990s	Risk-based 1990s – 2010s	Partnership 2010s –	Value-based Emerging
Independence	Independent of activities audited	Independent of activities audited	Independent of activities audited	Independent of activities audited	Independent of activities audited	Independent of activities audited
Serving	Finance	Finance	Finance / Business units	Business units	Organisation	Organisation
Reporting to	Generally CFO	Generally CFO	Generally CFO	Emerged to CEO and then Audit Committee reporting	Audit Committee for operations / CEO for administration	Audit Committee for operations / CEO for administration
Objective	Assurance	Assurance	Assurance	Assurance	Assurance and advisory / Value-adding	Assurance and advisory / Value-adding / Proactive / Offer insights / Key agent of change
Focus	Historical	Historical	Historical	Historical	Forward-looking	Forward-looking / Insights
Coverage	Controls	Controls	Controls	Controls	Governance / Risk management / Controls	Governance / Risk management / Controls
Outcome	Detect mistakes	Detect mistakes	Improve controls	Improve business unit controls	Improve business units	Improve organisation / Actively seek innovation / Help organisation achieve strategic intent
Fraud focus	Detect fraud	Detect fraud	Detect fraud	Detect fraud	Prevent fraud	Prevent fraud
Reports go to	Management	Management	Management	Management / emerged to Audit Committee	Management and Audit Committee	Management and Audit Committee
Standards	No	Internal Audit Standards in 1978	Internal Audit Standards	Internal Audit Standards	Internal Audit Standards	Internal Audit Standards
Resourcing	In-house	In-house	In-house	In-house / Emerged to co-sourced	Co-sourced / Subject matter experts and guest auditors	Co-sourced / Subject matter experts and guest auditors
Staff qualifications	Financial	Financial	Financial	Financial	Some non-financial disciplines	Many non-financial disciplines
Planning	Cyclical annual plan	Cyclical annual plan	Cyclical 5-year plan	Risk-based 3-year plan	Risk-based 3-year or annual plan	Risk-based rolling plan
Audit types	Compliance	Compliance	System	Operational	Integrated	Service catalogue
Management requested services	No	No	No	Some	Yes	Yes - many

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Discussion

Issue

The issue to be discussed is:

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

Discussion

Internal Audit generally performs internal audit engagements derived from the organisation's higher risk areas matched to 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, while 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.

Possible Service Offerings

Internal audit engagements

An internal audit engagement is the traditional method used to perform internal 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.

These are often 'deep dive' audits.

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 request' 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.

They may also be called pulse audits.

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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 but also infrastructure and construction 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 independent 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 good practice for the Chief Audit Executive to periodically attend key board or executive 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 and integrity 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 improvement 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.

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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 people 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 and involve 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, while 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 reorganisation.
- › 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 and investments, 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

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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 with a subsidiary.

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							
Service Offerings	Service Type	Source	Elapsed Timeframe	Persuasive Evidence*	Opinion	Deliverable	Internal Audit Monitor Action Plans
Internal audit engagements	Assurance	Internal Audit	90 days	Yes	Yes	Report	Yes
Acquisition assurance	Assurance	Internal Audit / on request	60 days	Yes	Yes	Report	Yes
Assurance advisory services	Advisory	On request	Quick	Yes	No	Brief report	No
Management requested services	Assurance / Advisory	On request	Various	Yes	Yes / No	Report	Yes / No
Business unit control advisory	Advisory	On request	Quick	Yes	No	Brief report	No
Health checks	Assurance	Internal Audit / on request	Quick	Yes	Yes	Brief report	Yes
Multi-stage audits	Assurance	Internal Audit / on request	Life of activity	Yes	Yes	Reports at key timings	Yes
Project assurance	Assurance	Internal Audit / on request	Life of project	Yes	Yes	Reports at key project milestones	Yes
Procurement advisory	Advisory	On request	Quick	Yes	No	Summary	No
Preliminary reviews	Advisory	On request	Quick	Yes	No	Improvement roadmap	No
One week reviews	Advisory	Internal Audit	Quick	Yes	No	Brief report	No
Risk and control improvement facilitation	Advisory	On request	Quick	Yes	No	Improvement roadmap	No
Control self-assessment	Advisory	On request	Quick	Yes	No	Brief report	No
Continuous auditing	Assurance	Internal Audit	Continuous	Yes	Yes	Ongoing reports	Yes
Forensic and fraud reviews	Assurance	Internal Audit / on request	60–90 days	Yes	Yes	Report	Yes
Subsidiary assurance monitoring	Assurance	Internal Audit	30 days	Yes	Yes	Report	Yes
Special audits	Assurance	Internal Audit / on request	60–90 days	Yes	Yes	Report	Yes

* 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.

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Conclusion

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 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 and 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.

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 and value-add, 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 for the forward-looking insights it can provide.

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, while delivering a wider range of internal audit services offering more value to the organisation.

Bibliography and References

'International Professional Practices Framework', Internal Audit Foundation

'Internal Audit in Australia - Second Addition', Institute of Internal Auditors – Australia

'Evolution of Internal Audit', Institute of Internal Auditors – Australia

Purpose of White Papers

A White Paper is a report authored and peer reviewed by experienced practitioners to provide guidance on a particular subject related to governance, risk management or control. It seeks to inform readers about an issue and present ideas and options on how it might be managed. It does not necessarily represent the position or philosophy of the Institute of Internal Auditors – Global and the Institute of Internal Auditors –Australia.

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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 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 200,000 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.

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