Internal Audit at the hub of the business

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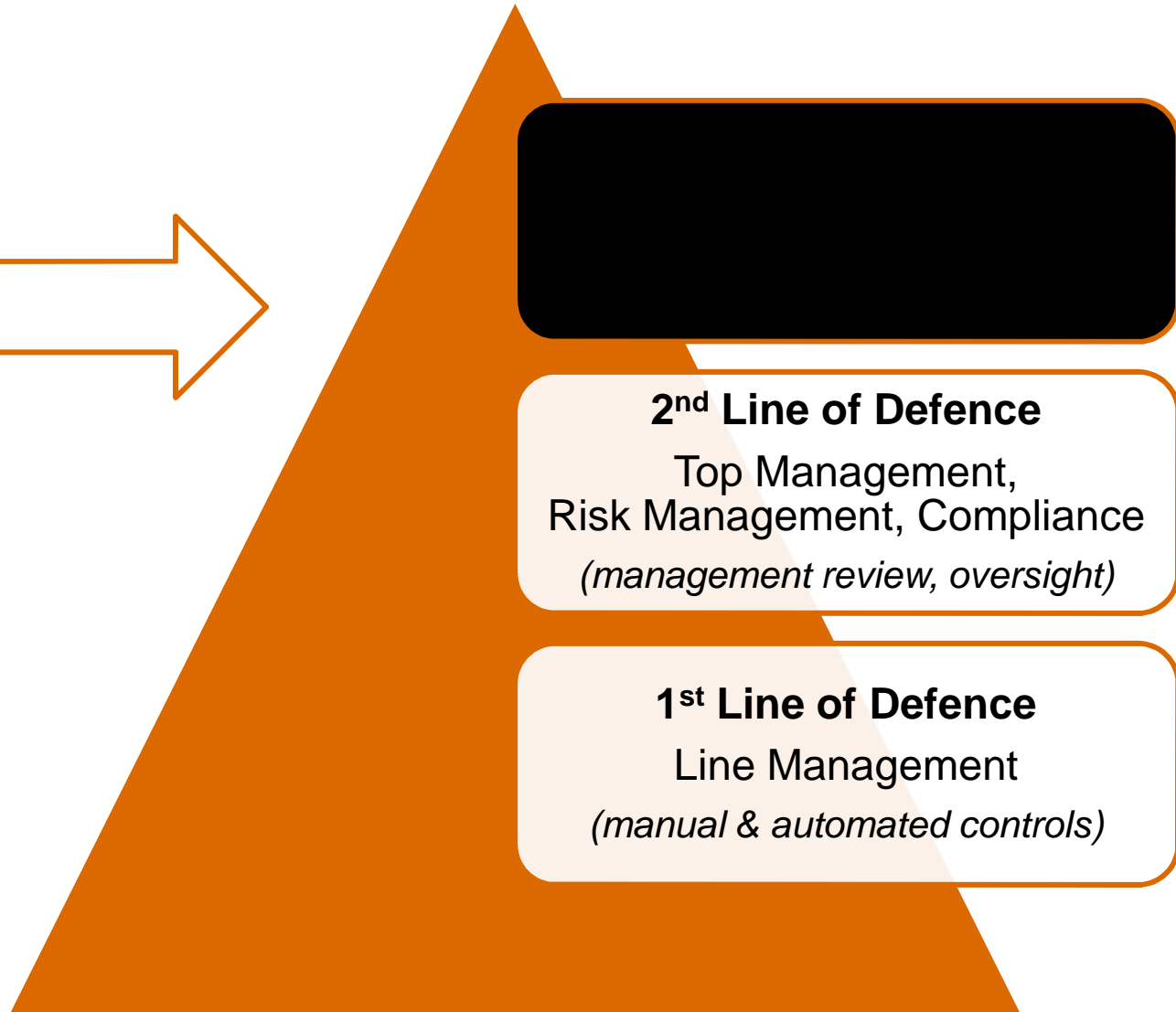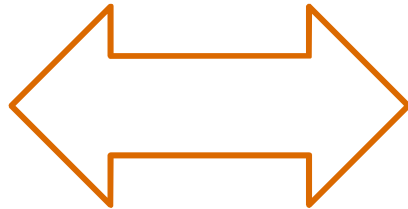**pwc**

Presentation Overview

The 3 Lines of Defence

Internal Audit's Relationship with External Audit

Internal Audit's Role within GRC

The 3 Lines of Defence
Where does Internal Audit stand?

External
Audit

2nd Line of Defence

Top Management,
Risk Management, Compliance

(management review, oversight)

1st Line of Defence

Line Management

(manual & automated controls)

Internal Audit's Relationship with External Audit

Collaboration in practice, adding value to the business

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Internal Audit's Relationship with External Audit
Collaboration in practice, adding value to the business

Internal Audit wants:

To add value to the business through a **risk focused audit plan.**

To adopt an **efficient, coordinated** approach to providing assurance to management.

To have a clear understanding of the **division of assurance responsibilities**.

External Audit wants:

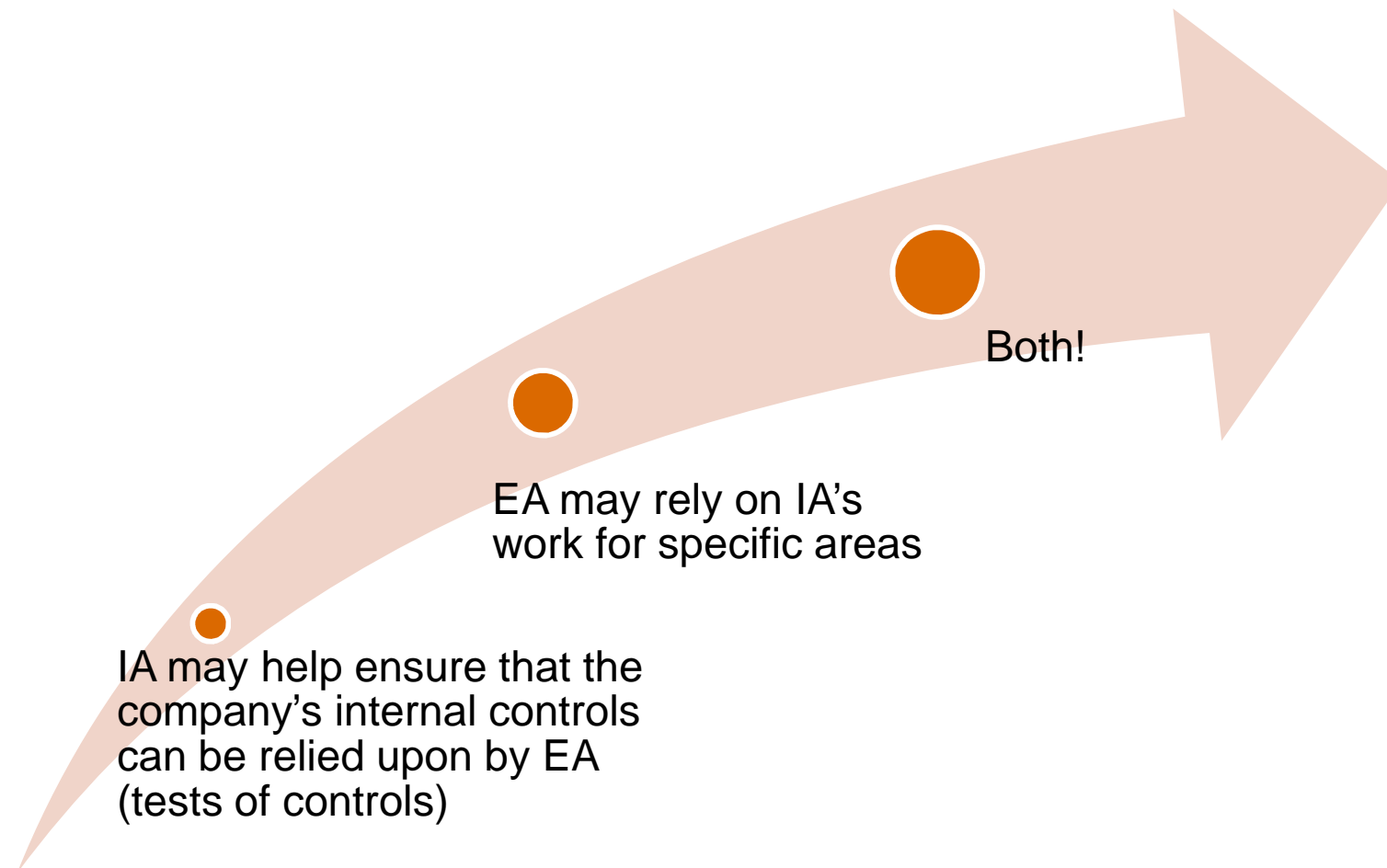To **quickly understand** the company's risk identification and management process.

To **rely on internal controls**: To find a **comprehensive, efficient and effective control framework, clearly documented** & **consistently applied** throughout the year.

To **rely on Internal Audit's work**: For areas that do not involve significant risks, provided that Internal Audit **meets certain requirements**.

Internal Audit's Relationship with External Audit
Collaboration in practice, adding value to the business

Internal – External Audit collaboration

Both!

EA may rely on IA's work for specific areas

IA may help ensure that the company's internal controls can be relied upon by EA (tests of controls)

Internal Audit's Relationship with External Audit
Collaboration in practice, adding value to the business

Ensuring the control framework can be relied upon

Actions IA should do to assist in this direction:

- Documenting systems and processes

- Reviewing the risk register

- Reviewing effectiveness and efficiency of controls

- Providing all these to the external auditors to assist in their assessment of the control environment

Internal Audit's Relationship with External Audit
Collaboration in practice, adding value to the business

Use of IA's work by EA

International Standard on Auditing (ISA) 610 sets out external auditors' responsibilities for 'Considering the work of internal audit':

"The external auditor should perform an **assessment** *of the internal audit function"*

Criteria to be met include:

- Organisational Status of IA
- IA's Scope of Function
- IA's Technical Competence
- Due Professional Care

"The external auditor should evaluate and perform audit procedures on [IA] work to **confirm its adequacy"**

IA's work must be relevant, undertake the required scope, be properly timed, properly documented, etc.

So… use of IA's work by EA is not as straightforward as it first sounds!

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Collaboration in practice, adding value to the business

Use of IA's work by EA, a real-life example

Entity: Large Financial Services Group

PwC external auditors have assessed the IA function, coming to the conclusion that it conforms to the set criteria.

EA & IA meet in April each year to coordinate planning and scoping, ensure alignment on key risks.

On-going liaison throughout the year.

Sample areas where IA's work is relied upon by EA	IA work performed	EA work performed on top of IA's	EA effort necessary if not using IA's work
Bank branches	110 visits	3 visits	Over 40 visits needed
Business centres	20 visits	2 visits	8 to 10 visits needed
Information Systems implementation	All tests (e.g. UATs)	Review. Only few selected tests are re-performed	All tests would need to be performed by EA

Internal Audit's Relationship with External Audit
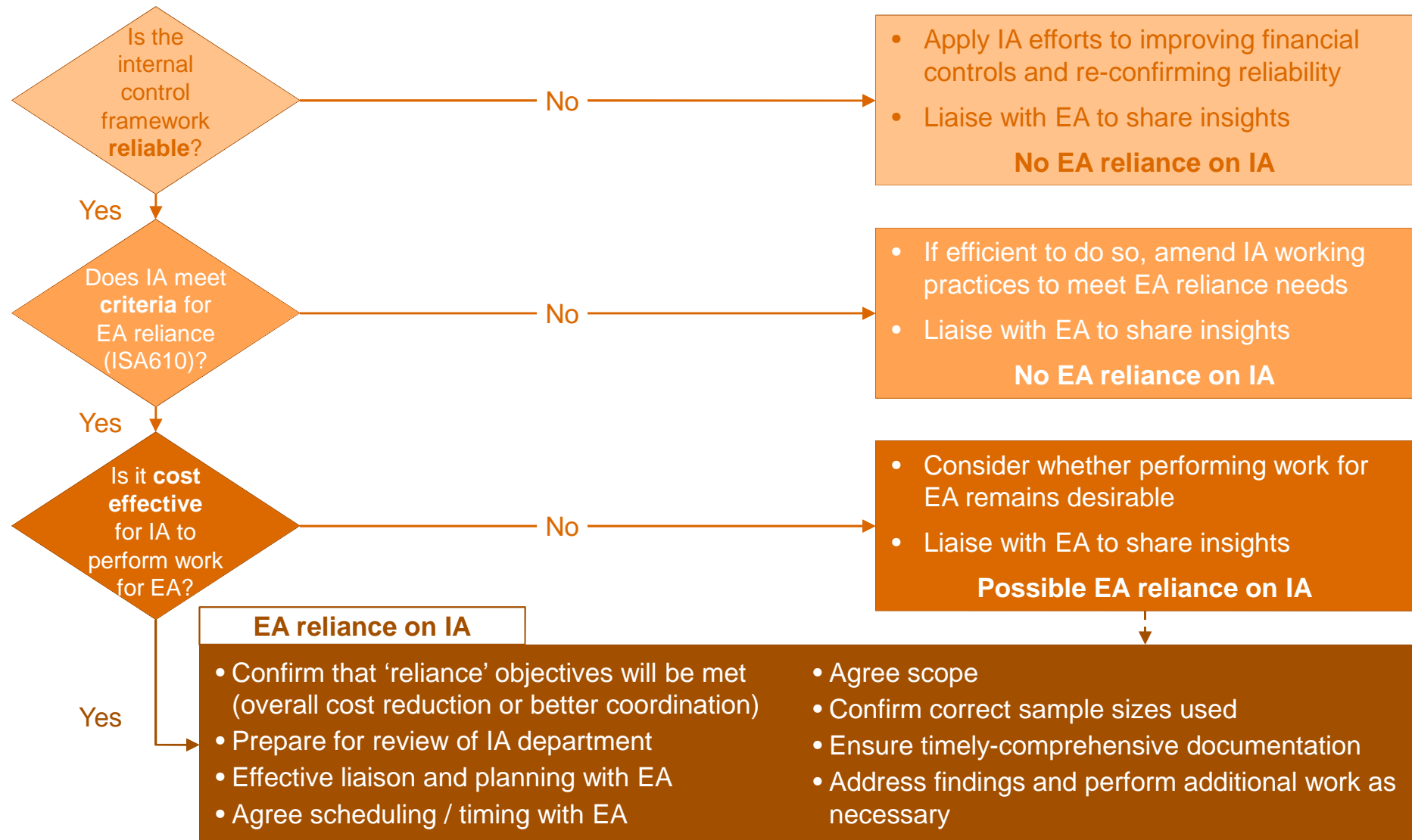## Collaboration in practice, adding value to the business

So, what's in it for IA?

Effective implementation of this combined assurance model between internal and external auditors can assist IA in a number of ways:

- Value statement for IA in the eyes of the Board & senior management (always difficult to "sell" the benefits that IA brings to the business – here it can have a tangible example).

- Increased credibility, relevance of IA – gaining a "seat at the table".

- Insight into what external auditors look for in a company's control environment may help tailor the work internal auditors perform in the financial arena – great learning opportunity for IA staff.

- Adds to IA's effort to achieve a holistic view of risks.

Internal Audit's Relationship with External Audit
IA & EA integration Decision / Action Tree

Is the internal control framework reliable?

No →

- Apply IA efforts to improving financial controls and re-confirming reliability
- Liaise with EA to share insights

No EA reliance on IA

Yes ↓

Does IA meet criteria for EA reliance (ISA610)?

No →

- If efficient to do so, amend IA working practices to meet EA reliance needs
- Liaise with EA to share insights

No EA reliance on IA

Yes ↓

Is it cost effective for IA to perform work for EA?

No →

- Consider whether performing work for EA remains desirable
- Liaise with EA to share insights

Possible EA reliance on IA

Yes

EA reliance on IA

- Confirm that 'reliance' objectives will be met (overall cost reduction or better coordination)
- Prepare for review of IA department
- Effective liaison and planning with EA
- Agree scheduling / timing with EA

- Agree scope
- Confirm correct sample sizes used
- Ensure timely-comprehensive documentation
- Address findings and perform additional work as necessary

Internal Audit's Role within GRC

Target: increased cooperation & communication

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Internal Audit's Role within GRC
Target: increased cooperation & communication

IA's more than one hats within GRC

- IA operates in the broad area that is known by the term GRC (Governance, Risk Management & Compliance).

- On the one hand it is part of the governance of the organisation; on the other it has its own (testing) responsibility regarding governance.

- This responsibility is shaped in part by guidelines issued by various professional bodies and by expectations from interested parties both within and beyond the organisation.

IA has a multifaceted role within GRC: it oversees, checks, advises and is one of the few functions of the organisation that has access to all of its parts.
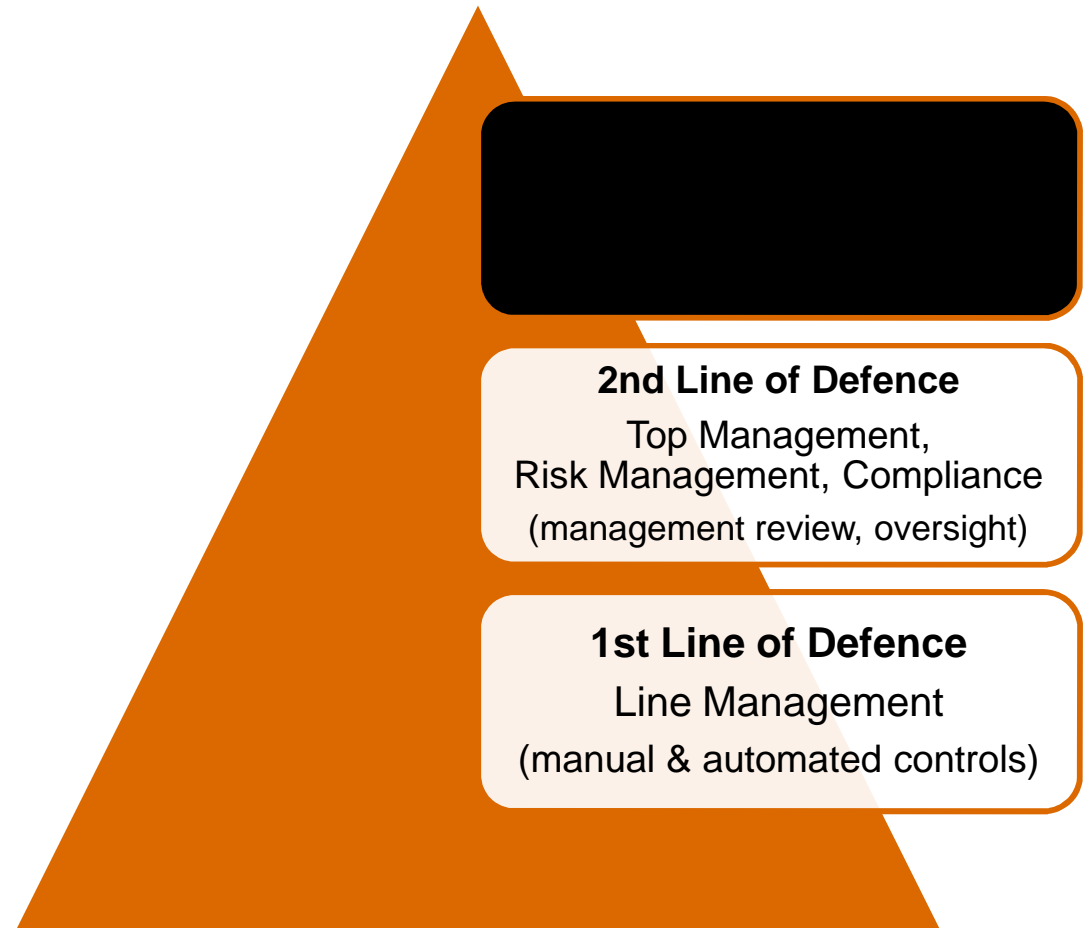
Internal Audit's Role within GRC
Target: increased cooperation & communication

Remember this?

Risk Management &
Compliance functions:
2nd Line of Defence.

IA assesses the effectiveness of
these functions, since they are
part of the organisation's
System of Internal Controls.

The **importance of good
communication** between IA
and all the other GRC
functions is **paramount**.

2nd Line of Defence
Top Management,
Risk Management, Compliance
(management review, oversight)

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Internal Audit's Role within GRC
Target: increased cooperation & communication

Good Practices for increased cooperation & communication

All risk and control functions utilise an **integrated organisation-wide risk management system** (including the same conceptual framework) for risk detection and control.	IA takes measures, especially if the organisation has an integrated risk management system, to **ensure that it can assess this system with sufficient objectivity and independence**.
The risk and control functions and line management use **one and the same tool** for establishing important controls, risks and issues, so that a uniform use of language, transparency and coordination is fostered and facilitated.	If IA does not have the specific know-how in-house necessary for an audit, it **obtains** such knowledge and experience from beyond its own department. Not having specific know-how or experience can **never** be a reason not to undertake an audit.
IA actively seeks opportunities to **exchange employees** with the other GRC functions	The IA **deliberates** with the other GRC functions on a **regular basis**; the agenda includes coordination of work activities and discussion of risk assessments.
IA and the other GRC functions are located in **physical proximity**, so as to reinforce informal communication.	The Head of IA is present at **meetings of risk committees**, if applicable.

Closing remarks

- Strengthening communications and increasing cooperation among the various GRC functions still requires considerable attention in many organisations.

- Part of this should consist of a **clear and uniform system of concepts**, which is at present not shared property in a number of organisations.

- A good practice for one organisation may not necessarily be good practice for another. A thorough understanding of context, preconditions and critical success factors is essential in any such approach.

Thank you!

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