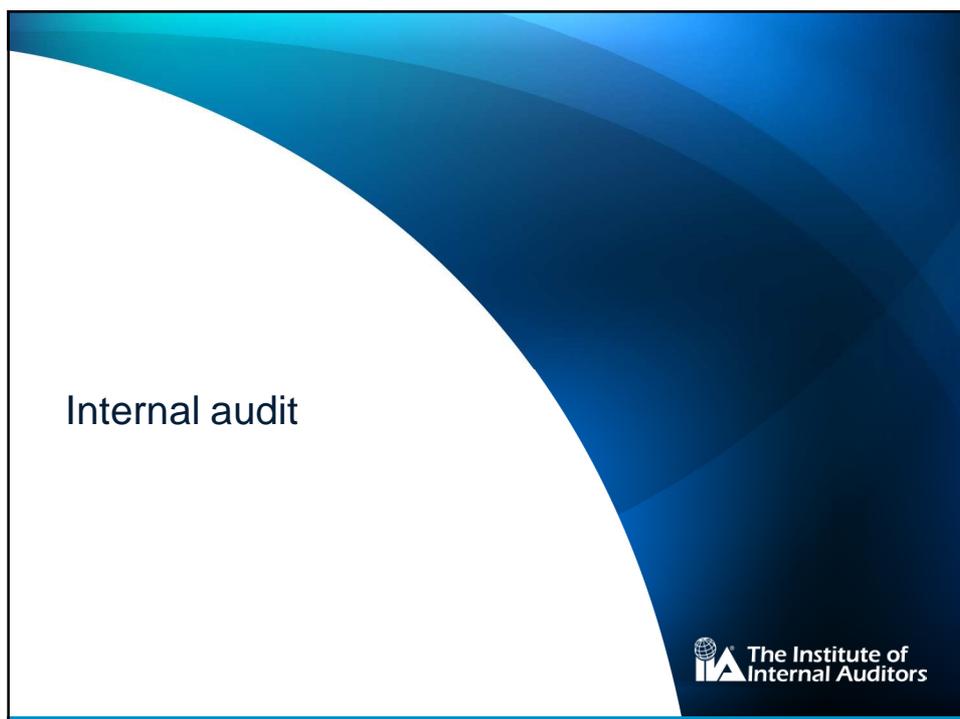


Topics addressed

- Distinctive role of internal audit
- Internal and external audit
- The public sector dimension
- Opportunities for greater collaboration
 - Internal audit and SAIs
 - IIA and INTOSAI
- Q&A

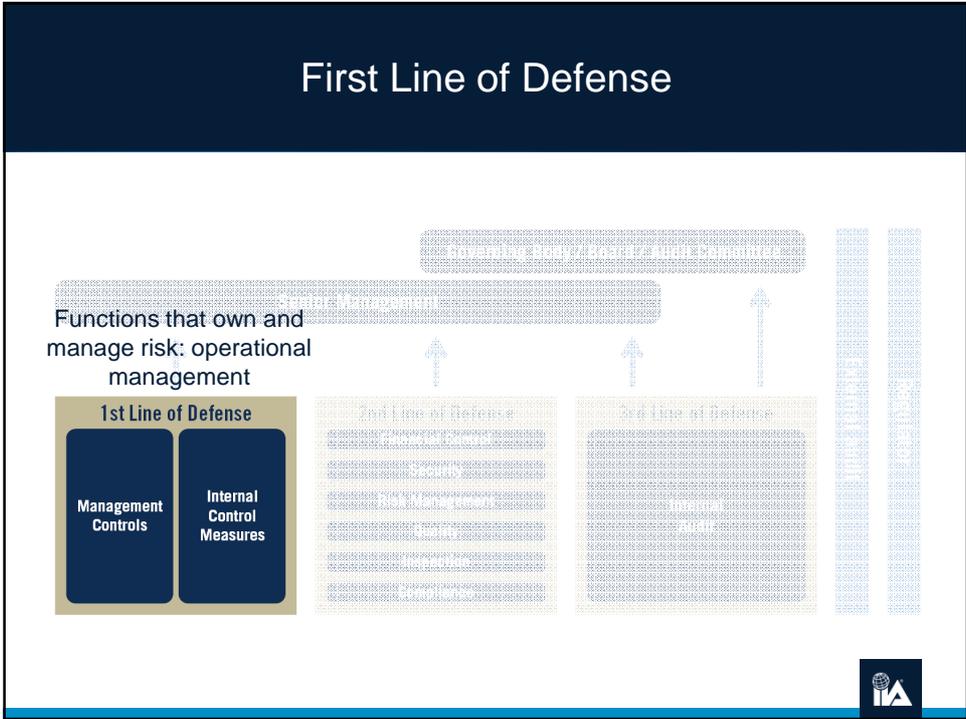
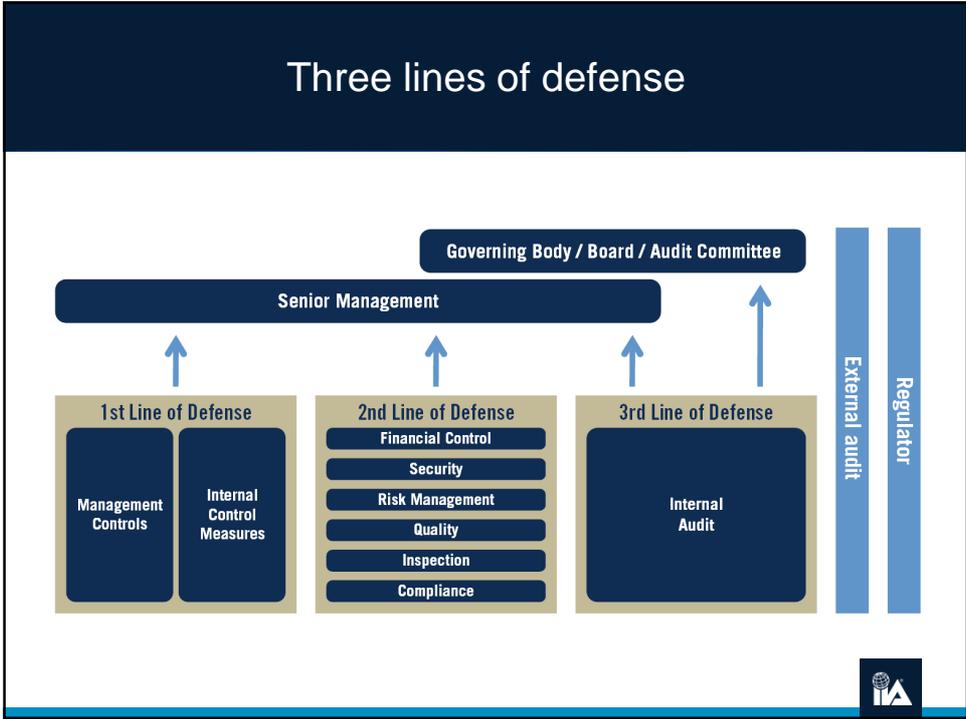


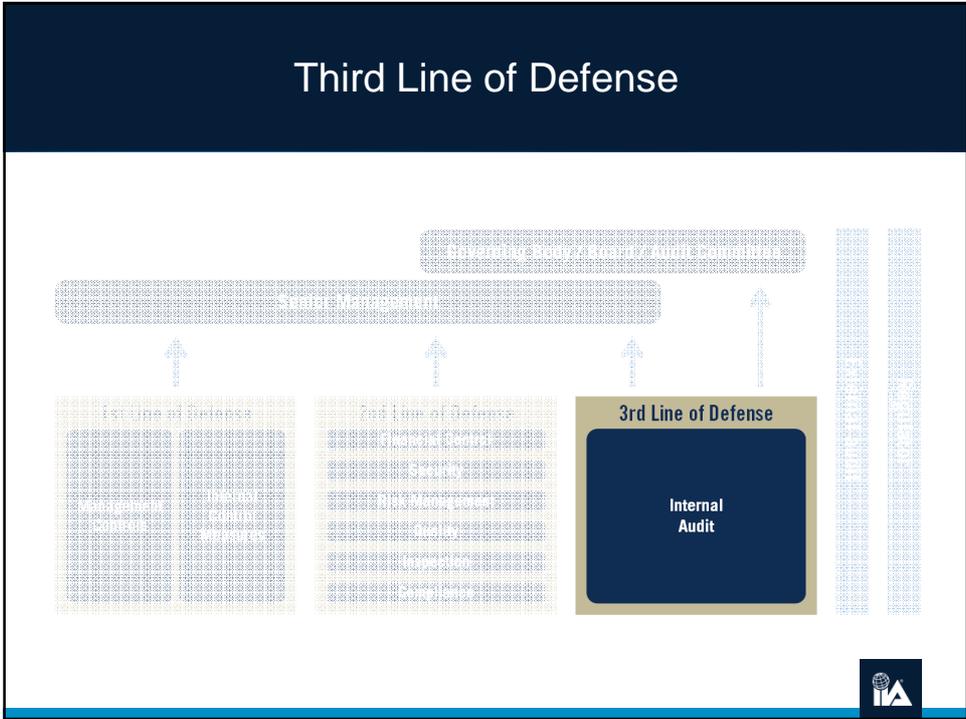
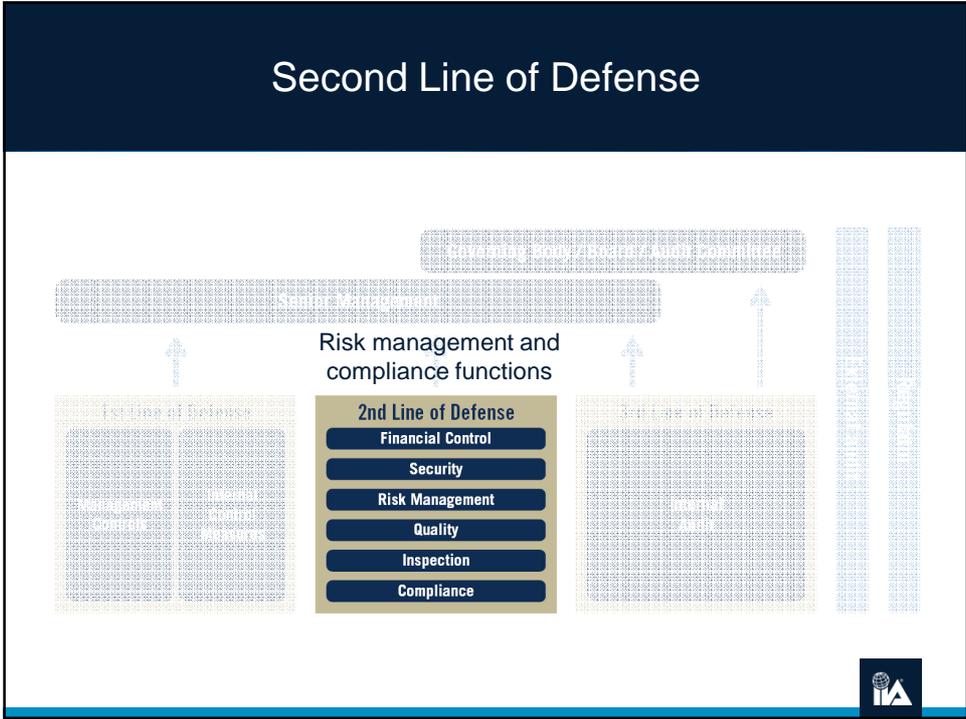


Internal audit

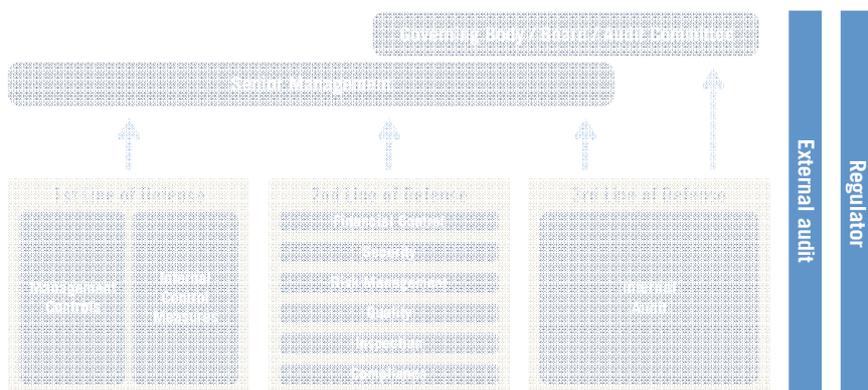
- **Mission**: “to enhance and protect organizational value by providing risk-based objective assurance, advice, and insight.”
- **Definition**: “...independent, objective assurance and consulting activity...to add value and improve an organization’s operations.”







External assurance



Fundamental principles

- **Independence:**
 - Despite often being within an entity
 - “Freedom from conditions that threaten the ability...to carry out internal audit responsibilities in an unbiased manner.”
 - Direct and unrestricted access to senior management and the board
 - Functional reporting to an independent audit committee or similar
 - Administrative reporting to the highest possible level within the organization



Fundamental principles

- **Independence** (continued):
 - Role of audit committee:
 - Approve the internal audit charter (including free and unfettered access to all individuals and resources needed)
 - Approve risk-based internal audit plan
 - Approve internal audit budget
 - Receive reports from the CAE
 - Hire/fire the CAE
 - Approve remuneration of CAE
 - Ensure adequate resourcing



Fundamental principles

- **Objectivity**:
 - “...impartial, unbiased attitude...avoid any conflict of interest”
 - Including any *appearance* of threats to independence or objectivity
 - Achieved through
 - Specific standards and guidance
 - Systematic, disciplined approach
 - Appropriate supervision
 - Internal and external quality reviews
 - Oversight by audit committee



Internal audit and external audit

Internal and External Audit

- Financial capital is less than 20% of an organization's total value¹
- Board's have many concerns other than financial reporting, including:
 - reputational risk, cybersecurity and resilience, cultural weaknesses, IT infrastructure, disruption, threats to supply lines, business continuity
- Therefore audit committees should be spending most of their time on matters other than external audit

¹International Integrated Reporting Council

Internal and External Audit



Internal audit and SAIs: differences

	SAIs	Internal audit
Scope	Pan-government	Entity-wide (but may be wider depending on structure)
Reporting line	Parliament	Functionally to the board or equivalent Administratively to chief accounting officer, CEO, other
Audits	Compliance, financial, performance	Wide ranging



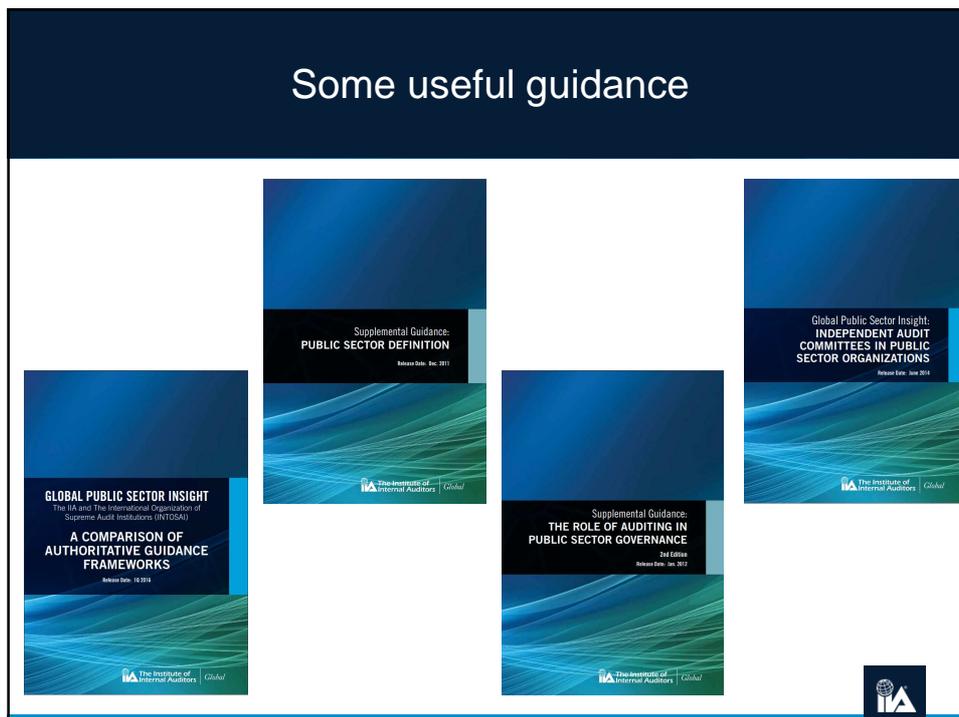
Internal Audit and SAs: commonalities

- Many complementary goals
 - Achieve goals in service of the public
 - Greater efficiency, effectiveness, and economy
 - Greater transparency
 - More accountability
 - Reduced fraud
- Very similar approaches
- Comparable standards and methods
- Importance of independence and objectivity



The public sector
dimension

Some useful guidance



Issues for public sector auditing

Government environment:

- High degree of public scrutiny
- Short termism
- Politics
- Sovereign debt
- Public-private partnerships
- Sale of government assets
- Shortage of/decreasing funding

Risks and activity:

- Cybersecurity
- Third party risks
- Risk assessments
- Efficiency reviews
- Auditing projects
- Expenditures procurement

Staffing:

- Gaps in expertise
- Insourcing and de-sourcing
- Recruiting talent and retention

Standards and guidance:

- Advocacy and promotion of standards
- National vs. international standards
- Guidance for local government

Challenges for internal audit in the public sector: drivers for change

- Identifying emerging risks
- Aligning with stakeholder expectations
- Challenging the rising tolerance for waste
- Combatting fraud and corruption
- Doing more with less
- Operating with blurring lines of defense
- Supporting UN's Sustainable Development Goals for 2030



Common weaknesses of internal audit

- A compliance-only mentality
- Treating risk as only negative
- Risk management and internal control overly focused on external financial reporting
- Regarding risk management and internal control as a separate function or process
- Viewing risk management and internal control as predominantly important for operations



Opportunities for collaboration

Internal Audit and SAIs

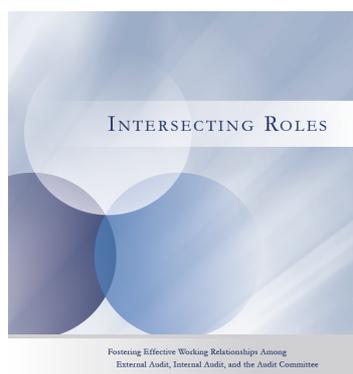
- Opportunities for collaboration and cooperation
 - SAIs' reliance on the work of internal audit (especially performance audit, compliance audit, and financial audit)
 - Internal audit's assurance mapping and coordination
 - Discussions ahead of SAI audits
 - Inclusion of items in the internal audit plan of interest to SAIs

Sustainable Development Goals

- Internal audit can support SAIs
 - As joint stakeholders in good governance
 - As educators and ambassadors for SDGs in government entities
 - In tying together a fragmented local picture into an aggregated national picture
 - In validating data and reports coming out of government entities
 - As partners for achieving policy coherence and integration
 - As a resource (up to 80,000 IIA members in government) to draw upon that is expert in governance, risk, and control, process analysis, risk management and analysis, operating to comparable standards for independence, objectivity, quality, evidence etc.



Other relevant papers



IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality



The Board
OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

CR04/2018 | APRIL 2018

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