

The Role of Internal Audit

The Institute of Internal Auditors (IIA) has defined internal auditing as an independent, objective assurance and consulting activity designed to add value and improve on organisations 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.

In recent years, with corporate scandals both in the US and Europe there has been greater focus on a more disciplined approach to Corporate Governance and we have seen the development of the Cadbury Combined Code (UK) and Baines Oxley (US) legislation both of which express the need for strict internal controls and directors' responsibilities for such controls and the establishment of audit committees. It is interesting to note that guidance on internal control for directors in connection with the UK's Combined Code recommends that boards of directors should assess the need for the internal audit function at least annually and that the board should reviews its scope of work, its authority and resources.

What then are the principal activities of an internal audit department? These include:

- examination and evaluation of both financial and operating information
- review of compliance with legislation and regulations
- review of internal policies will emphasis on the authorisation of transactions
- assessment of internal risk
- review of cost effectiveness, efficiency and value for money audits (public sector)

There are therefore both differences and similarities between internal audit and the external audit function. The main areas of difference are within scope, approach and responsibility and are listed below:

	Internal Audit	External Audit
Scope	The scope of the work is determined in consultation with Senior Management	This is determined by statute, the requirements of statutory audit
Approach	Ensure that the accounting systems are efficient and providing relevant and accurate information on which management decisions can be taken	To form an opinion whether the financial statements present a true and fair view
Responsibility	To Senior Management, to advise on internal control and governance	To the Shareholders

There needs to be a professional relationship between the external auditors and the internal audit department. The external auditors need a clear understanding of the internal audit function so that an effective audit approach can be planned, and whether it is possible or desirable to rely on the work of the internal audit team. There are a number of factors that would influence this and that the status of internal audit should be clearly understood. Internal audit should:

- plan and carry out their work as required
- have access to the Senior Management Team through the Board and where appropriate the Audit Committee
- be able to communicate openly with the external auditors
- be free from operating responsibility

The scope of the internal audit function would also need to be relevant to the external auditors/objectives and an assurance that there has been due professional care exercised by suitable qualified internal audit staff.

It is desirable that internal and external auditors meet periodically to share common interests benefit from their individual skills expertise and perspectives and thus increase the economy efficiency and effectiveness of the entire audit process.

It is often the case that within the Public Sector: NHS, Police Authorities, District, Borough and County Councils the Internal Audit Units conduct VFM, Value for Money Audits. With the increased pressure on Public Sector finance and the provision of quality service such exercises have become an integral part of the Internal Audit function.

It has been said that VFM is simply concerned with obtaining the best possible combination of quality services from the least resources. It therefore focuses on resource allocation. It is thus the pursuit of concepts mentioned previously: Economy, Effectiveness and Efficiency.

As we move globally towards the integration of Corporate Governance ethics and principles in the conduct of business activity it is clear that the role of the Internal Auditor will gain further prominence.