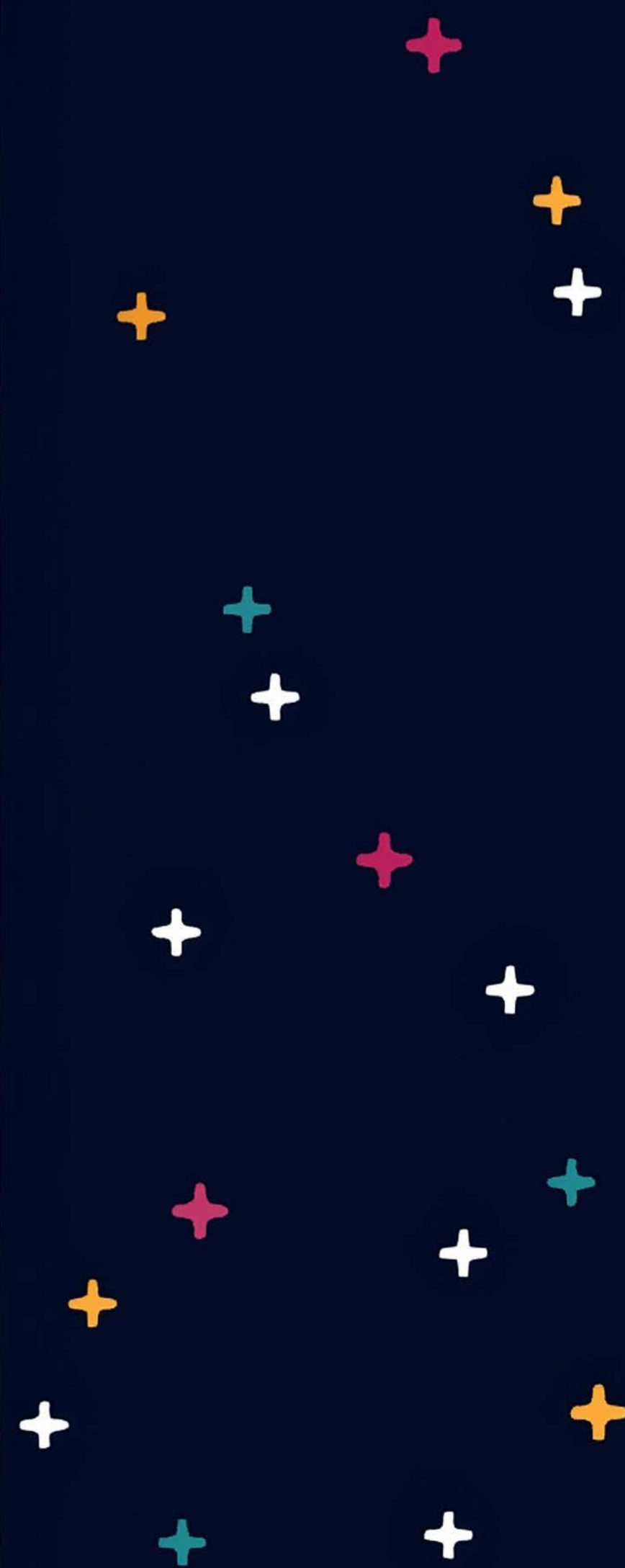


# Foundations of Internal Auditing

## Module

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## NOTES

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This module covers the following topics from the *CIA examination syllabus*:

## CIA Syllabus—Section A: Foundations of Internal Auditing

1. Describe the Purpose of Internal Auditing according to the Global Internal Audit Standards  
*May include but is not limited to:*
  - a. Explain the overall objectives and benefits of the internal audit function
  - b. Describe the conditions that contribute to the effectiveness of the internal audit function
2. Explain the internal audit mandate and responsibilities of the board and chief audit executive  
*May include but is not limited to:*
  - a. Describe the authority, role, and responsibilities of the internal audit function
  - b. Explain the role of the chief audit executive in helping the board establish or update the internal audit mandate
  - c. Explain the role of the board and senior management in determining the authority, role, and responsibilities of the internal audit function
3. Recognize the requirements of an internal audit charter  
*May include but is not limited to:*
  - a. Identify components required by the Global Internal Audit Standards
  - b. Recognize the importance of discussing the charter with the board and senior management
  - c. Recognize the importance of board approval

## 1 The Practice of Internal Auditing

### 1.1 Objectives and Benefits of the Internal Audit Function

According to the *Global Internal Audit Standards*<sup>™</sup> (the Standards), internal auditing is defined as “an independent, objective assurance and advisory service designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.” Internal audit services include performance auditing, assurance regarding internal controls over financial reporting, and investigations.

An organization may have an internal audit department within their organization or engage an external party to perform internal audit functions on their behalf. Regardless of the structure, the benefits that a strong internal audit function bring to an organization extend beyond risk management, governance, and controls by strengthening operational efficiency, reliability of reporting, compliance, and ethics.

## 1.2 Conditions Contributing to Effectiveness of Internal Audit

As noted in Domain I: Purpose of Internal Auditing in the Standards, “internal auditing is most effective when:

- It is performed by competent professionals in conformance with the *Global Internal Audit Standards*, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.”

There are several tools and elements that can help with achieving the above conditions, which include an appropriate reporting structure that includes a chief audit executive, policies and standards, and an internal audit charter.

## 1.3 Chief Audit Executive

For an internal audit function to be effective, it must have both effective leadership and be positioned independently within an organization. Leadership over the internal audit function is typically provided by a chief audit executive (CAE) whose primary responsibility is to oversee the performance of internal audit services. The CAE ensures that the internal audit function is performing quality work in accordance with the Standards. It is a best practice for the CAE and the internal audit function to be positioned independently, when possible, with the CAE having direct accountability to an organization’s board.

## 1.4 Internal Audit Profession Oversight

Internal auditors must have the interest of the public in mind when performing their responsibilities. To enhance the public’s perception and trust in the internal audit industry, specific organizations and governing bodies have been established to ensure that standards are developed, maintained, and adhered to by internal audit professionals.

- Institute of Internal Auditors (IIA)—An international professional association established in 1941 to support the internal audit industry through leadership in the establishment of standards, certification, education, research, and technical guidance.
- International Internal Audit Standards Board (IIASB)—A board established by the IIA to serve public interest by developing, issuing, maintaining, and promoting the *Global Internal Audit Standards*.
- International Professional Practices Framework Oversight Council—An independent body established to provide oversight over the standard setting process of the IIA.

## 1.5 International Professional Practices Framework

To facilitate the proper and consistent application of authoritative guidance and other information available related to the practice of internal auditing, the International Professional Practices Framework<sup>®</sup> (IPPF) was established. The IPPF includes both mandatory and supplementary guidance for internal auditors and is organized into three categories: *Global Internal Audit Standards*, *Topical Requirements*, and *Global Guidance*.

- *Global Internal Audit Standards* guide the professional practice of internal auditing and serve as the basis for evaluating and elevating the quality of the internal audit function. Conformance with the Standards is *mandatory*.
- Topical Requirements are established to enhance the consistency and quality of the application of internal audit services. They relate to specific subjects and are intended to evolve as risks faced by industries evolve. When a topical requirement is relevant to the scope of an internal audit engagement, conformance is *mandatory*.
- Global Guidance is developed to support the Standards with advice or best practices regarding the performance of internal audit services. It is endorsed by the IIA but is *supplemental* rather than mandatory.

### 1.5.1 The Global Internal Audit Standards™

The *Global Internal Audit Standards* are a set of principles, requirements, considerations, and examples for demonstrating conformance intended to guide internal auditors when performing their responsibilities. Conformance with the Standards is mandatory for all internal auditors, whether employed directly by an organization or a third-party internal audit service provider. The Standards are applicable to all industries, sectors, and organizations of varying size and complexity.

The Standards are organized into five domains, which are supported by 15 guiding principles and various standards.



Source: *Global Internal Audit Standards*<sup>™</sup>. ©2024, The Institute of Internal Auditors, Inc. Licensed for use.

**■ Domain I: Purpose of Internal Auditing****■ Domain II: Ethics and Professionalism**

- Principle 1—Demonstrate Integrity: *Internal auditors demonstrate integrity in their work and behavior.*
- Principle 2—Maintain Objectivity: *Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.*
- Principle 3—Demonstrate Competency: *Internal auditors apply the knowledge, skills, and abilities to fulfill their roles and responsibilities successfully.*
- Principle 4—Exercise Due Professional Care: *Internal auditors apply due professional care in planning and performing internal audit services.*
- Principle 5—Maintain Confidentiality: *Internal auditors use and protect information appropriately.*

**■ Domain III: Governing the Internal Audit Function**

- Principle 6—Authorized by the Board: *The board establishes, approves, and supports the mandate of the internal audit function.*
- Principle 7—Positioned Independently: *The board establishes and protects the internal audit function's independence and qualifications.*
- Principle 8—Overseen by the Board: *The board oversees the internal audit function to ensure the function's effectiveness.*

**■ Domain IV: Managing the Internal Audit Function**

- Principle 9—Plan Strategically: *The chief audit executive plans strategically to position the internal audit function to fulfill its mandate and achieve long-term success.*
- Principle 10—Manage Resources: *The chief audit executive manages resources to implement the internal audit function's strategy and achieve its plan and mandate.*
- Principle 11—Communicate Effectively: *The chief audit executive guides the internal audit function to communicate effectively with its stakeholders.*
- Principle 12—Enhance Quality: *The chief audit executive is responsible for the internal audit function's conformance with the Global Internal Audit Standards and continuous performance improvement.*

**■ Domain V: Performing Internal Audit Services**

- Principle 13—Plan Engagements Effectively: *Internal auditors plan each engagement using a systematic, disciplined approach.*
- Principle 14—Conduct Engagement Work: *Internal auditors implement the engagement work program to achieve the engagement objectives.*
- Principle 15—Communicate Engagement Results and Monitor Action Plans: *Internal auditors communicate the engagement results to the appropriate parties and monitor management's process toward the implementation of recommendations or action plans.*

## 1.6 Purpose of Internal Audit

Domain I of the Standards outlines a purpose statement intended to assist stakeholders in understanding the importance of internal auditing and the value that it brings to an organization. The statement includes the purpose, a list of enhancements internal auditors bring to an organization, and the factors that are present in an effective internal audit function. The purpose statement is included in the Internal Audit Charter, which is a formal document that includes the internal audit function's mandate, organizational position, reporting relationships, scope of work, types of services, and other specifications.

### Sample Purpose Statement From an Organization's Internal Audit Charter

#### Internal Audit Charter for an Organization

##### Purpose

The purpose of the internal audit function is to strengthen the organization's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances the organization's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

The organization's internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with The IIA's *Global Internal Audit Standards*, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.



### Pass Key

When studying the purpose statement, remember an effective internal audit function **PRODS** an organization toward success by enhancing:

**P**rocesses;

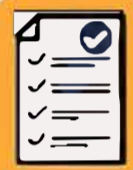
**R**eputation;

**O**bjectives;

**D**ecision making; and by

**S**erving the interest of the public.

## 2 The Internal Audit Mandate



### Requirements

### Standard 6.1 Internal Audit Mandate

The chief audit executive must provide the board and senior management with the information necessary to establish the internal audit mandate. In those jurisdictions and industries where the internal audit function's mandate is prescribed wholly or partially in laws or regulations, the internal audit charter must include the legal requirements of the mandate.

To help the board and senior management determine the scope and types of internal audit services, the chief audit executive must coordinate with other internal and external assurance providers to gain an understanding of each other's roles and responsibilities.

The chief audit executive must document or reference the mandate in the internal audit charter, which is approved by the board.

Periodically, the chief audit executive must assess whether changes in circumstances justify a discussion with the board and senior management about the internal audit mandate. If so, the chief audit executive must discuss the internal audit mandate with the board and senior management to assess whether the authority, role, and responsibilities continue to enable the internal audit function to achieve its strategy and accomplish its objectives.

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### Essential Conditions

#### **Board**

- Discuss with the chief audit executive and senior management the appropriate authority, role, and responsibilities of the internal audit function.
- Approve the internal audit charter, which includes the internal audit mandate and the scope and types of internal audit services.

#### **Senior Management**

- Participate in discussions with the board and chief audit executive and provide input on expectations for the internal audit function that the board should consider when establishing the internal audit mandate.
- Support the internal audit mandate throughout the organization and promote the authority granted to the internal audit function.

One of the foundational principles of the *Global Internal Audit Standards* is that an organization's board must authorize the internal audit function to perform its duties. Authorization of the internal audit function comes through an internal audit mandate. It is imperative that individuals and departments within the organization understand the importance of the internal audit function and that the board has given the internal auditors the authority to perform their duties.

As outlined in the Standards, the mandate establishes:

- **ST:** The **scope** and **type** of internal audit services to be delivered and addresses the activities, assets, and personnel as well as the locations covered. The scope may specify the nature of internal audit services (for example, assurance only or assurance and advisory, focus on financial statements, compliance with laws and/or regulations) or may specify other limitations on the coverage of internal audit services. Examples of the type of services include performance auditing, assurance regarding internal controls over financial reporting, and investigations.
- **A:** The internal audit function's **authority** by creating a direct reporting relationship to the board that includes free and unrestricted access to the board. Additionally, internal auditors should have authority to free and unrestricted access to records, personnel, and physical property.
- **R:** The **role** of the internal audit function, which typically includes conducting and delivering internal audit activities and services. The role of external assurance providers and regulators may impact the role of the internal assurance providers and what is included in the mandate.
- **R:** The **responsibilities** of the internal audit function including their accountability and obligation to carry out their role. Other responsibilities may include conformance with the Standards, compliance with laws and regulations, and other specific expectations of stakeholders.



## Pass Key

Consider the mnemonic **STARR** when considering what elements the internal audit mandate helps to establish for the internal audit function.

- ST:** The **scope** and **type** of internal audit services to be delivered
- A:** The internal audit function's **authority**
- R:** The **role** of the internal audit function
- R:** The **responsibilities** of the internal audit function

The internal audit mandate is documented in the internal audit charter and is approved through the approval of the internal audit charter by the board. The chief audit executive, board, and senior management should formally discuss the mandate and the chief audit executive should formally assess any updates at least annually, but other circumstances may exist that would require more frequent assessment of the mandate. Such circumstances include:

- Updates to the *Global Internal Audit Standards*
- Significant changes in board or senior management
- Significant acquisitions or reorganizations
- Significant changes to an organization's strategies, objectives, risk profile, or environment
- New laws or regulations that may impact the scope of internal audit services

In circumstances where the mandate is prescribed by law or regulation, the internal audit charter must include the legal requirements of the mandate.

## 2.1 Responsibilities Related to the Mandate

The chief audit executive, board, and senior management all play an important role in the establishment of the internal audit mandate.

- The chief audit executive is responsible for providing the information necessary to help the board develop the mandate, and discussing and assessing whether the mandate continues to enable the internal audit function to carry out their roles and responsibilities and the need for any updates.
- The board helps to develop and update the mandate based on the information provided by the chief audit executive and through discussions with senior management. The board is responsible for approval of the internal audit charter, which includes the mandate.
- Senior management participates in discussions with the chief audit executive and the board and provides input during the development of the mandate. Senior management is responsible for supporting and promoting the mandate and the authority, role, and responsibilities of the internal audit function throughout the organization.

Once the mandate is approved, the internal audit function, under the leadership of the chief audit executive, is responsible for carrying out the mandate using a systematic and disciplined approach.