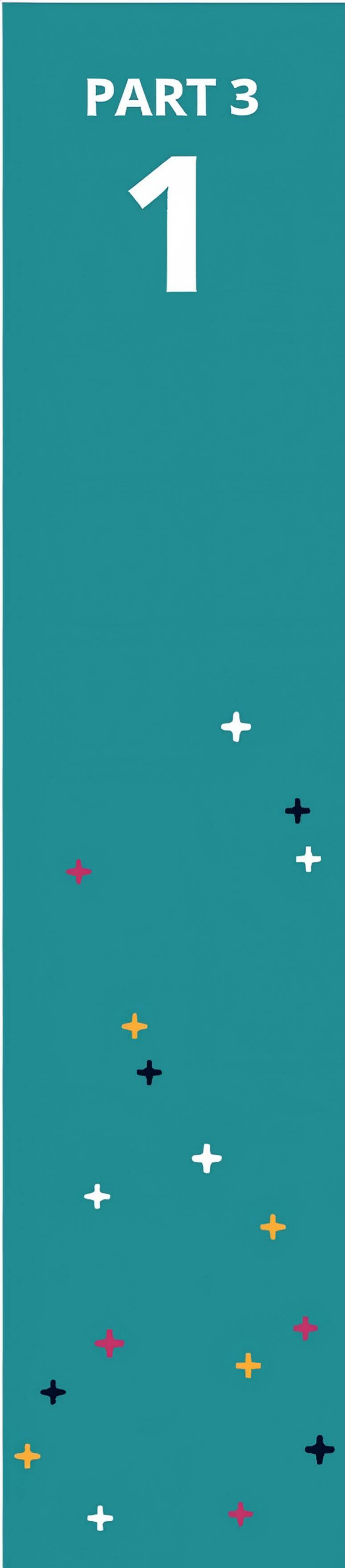


Internal Audit Operations

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NOTES

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

CIA Syllabus—Section A: Internal Audit Operations

1. Describe methodologies for the planning, organizing, directing, and monitoring of internal audit operations
May include but is not limited to:
 - a. Describe methods for managing external providers of internal audit services
 - b. Describe methods for monitoring internal audit operations
 - c. Describe methods for balancing assurance and advisory engagements
 - d. Identify the conditions that warrant the review and possible revision of internal audit methodologies

1 Internal Audit Methodologies



Requirements

Standard 9.3 Methodologies

The chief audit executive must establish methodologies to guide the internal audit function in a systematic and disciplined manner to implement the internal audit strategy, develop the internal audit plan, and conform with the Standards. The chief audit executive must evaluate the effectiveness of the methodologies and update them as necessary to improve the internal audit function and respond to significant changes that affect the function. The chief audit executive must provide internal auditors with training on the methodologies.



Requirements

Standard 11.2 Effective Communication

The chief audit executive must establish and implement methodologies to promote accurate, objective, clear, concise, constructive, complete, and timely internal audit communications.

The *Global Internal Audit Standards*[™] define methodologies as "policies, processes, and procedures established by the chief audit executive (CAE) to guide the internal audit function and enhance its effectiveness." Methodologies are useful, as they help standardize internal audit processes.

Domain IV: Managing the Internal Audit Function in the Standards states that the CAE is responsible for managing the internal audit function in accordance with the internal audit charter and the *Global Internal Audit Standards* to ensure that it adds value to the organization. This responsibility includes strategic planning, obtaining and deploying resources, building relationships, communicating with stakeholders, and ensuring and enhancing the function's performance. This includes methodologies for planning, organizing, directing, and monitoring internal audit operations, including communications.

1.1 Developing and Implementing Methodologies

The form, content, and level of detail of methodologies at each organization may be different according to the nature and size of the organization and the internal audit function. There may be individual documents available, such as standard operating procedures for methodologies, or the organization may compile them into an internal audit manual or audit management software.

Establishing internal audit methodologies helps internal auditors comply with the Standards and perform quality engagements. Processes and procedures for communicating, handling operational and administrative matters, and overseeing the internal audit function are also described in the methodologies.

Standard 9.3 provides examples of documented methodologies that help the internal audit function to implement the strategy, achieve the internal audit plan, and conform with standards that include:

- Assessing risks for the organization and for each engagement.
- Developing and updating the internal audit plan.
- Performing internal audit engagements.
- Communicating throughout internal audit services.
- Retaining and releasing engagement records and other information, consistent with the organization's guidelines and pertinent regulatory or other requirements.
- Monitoring and confirming the implementation of internal auditors' recommendations or management's action plans.
- Performing additional services identified in the internal audit mandate.

Standard 11.2: Effective Communication specifically addresses the requirement for the CAE to establish and implement methodologies related to effective internal audit communications. Communication methodologies should consider stakeholders' expectations and training may be provided to internal auditors to help them improve their writing or presentation of final communications. Methodologies to standardize the internal audit function's communications may include policies, criteria, and style guides.

1.2 Reviewing and Revising Internal Audit Methodologies

As noted in Standard 9.3, the CAE must evaluate the effectiveness of the methodologies and update them as necessary to improve the internal audit function and respond to significant changes that affect the function.

Internal audit methodologies must be reviewed for their effectiveness during quality assessments of the internal audit function and updated as necessary. The following circumstances may prompt the CAE to review and revise internal audit methodologies:

- S:** Significant changes in department **size** or composition
- A:** A change of the CAE or board or **audit** committee chair
- L:** **Legal** and/or regulatory requirements
- T:** **Technological** advancements
- S:** Significant changes in the **standards**



Pass Key

Internal audit strategy and internal audit plans are often referenced in discussions on internal audit methodologies, especially regarding managing and monitoring internal audit operations. However, there are distinctions between the definition and purpose of each, as provided in the table below:

	Strategy	Methodologies	Plan
	Standard 9.2: Internal Audit Strategy	Standard 9.3: Methodologies	Standard 9.4: Internal Audit Plan
Definition	A plan of action designed to achieve a long-term or overall objective that must include a vision, strategic objectives, and supporting initiatives for the internal audit function.	Processes and procedures for communicating, handling operational and administrative matters, and overseeing the internal audit function.	A plan that includes a documented assessment of the organization's strategies, objectives, and risks.
Purpose	To help guide the internal audit function toward the fulfillment of the internal audit mandate.	To guide the internal audit function in a systematic and disciplined manner to implement the internal audit strategy, develop the internal audit plan, and conform with the <i>Global Internal Audit Standards</i> .	To support the achievement of the organization's objectives.

2 Methods for Monitoring Internal Audit Operations



Requirements

Standard 8.3 Quality (Excerpt)

The chief audit executive must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program includes two types of assessments:

- External assessments.
- Internal assessments.



Requirements

Standard 12.1 Internal Quality Assessment (Excerpt)

The chief audit executive must develop and conduct internal assessments of the internal audit function's conformance with the *Global Internal Audit Standards* and progress toward performance objectives.

The chief audit executive must establish a methodology for internal assessments, as described in Standard 8.3: Quality, that includes:

- Ongoing monitoring of the internal audit function's conformance with the Standards and progress toward performance objectives.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices to evaluate conformance with the Standards.
- Communication with the board and senior management about the results of internal assessments.

There are several methodologies that can be used to help monitor internal audit operations. Standard 9.3 provides the following examples:

- Assuring the quality and improvement of the internal audit function.
- Developing performance measurements to assess progress toward meeting objectives.

Documentation providing evidence of conformance with the Standards includes:

- Meeting agendas and minutes, emails, signed acknowledgments, training schedules, or similar documentation evidencing communications to internal audit personnel about internal audit methodologies.
- Documentation of quality review of audit work demonstrating that methodologies are followed.

Standard 8.3 outlines that the CAE must develop, implement, and maintain a quality assurance and improvement program that includes both internal and external assessments. Internal assessments are addressed in Standard 12.1: Internal Quality Assessment.

Standard 12.1 indicates that the CAE must develop and conduct internal assessments of the internal audit function's conformance with the Standards and progress toward performance objectives. Specifically, the Standard requires the CAE to establish a methodology for internal assessments, as described in Standard 8.3: Quality, that includes:

- Ongoing monitoring of the internal audit function's conformance with the Standards and progress toward performance objectives.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices to evaluate conformance with the Standards, after which the CAE must develop an action plan to address any instances of noncompliance with the Standards and opportunities for improvement that include a proposed timeline.

Methods for ongoing monitoring of the internal audit function include day-to-day supervision, review, and measurement and are part of the internal audit policies and practices that can specify processes, tools, and information to evaluate conformance with the Standards.

Methodologies such as supervisory reviews of engagement, planning workpapers, and final communications are primarily used for monitoring compliance with the Standards and progress toward performance objectives. Additionally, the CAE may provide templates or automated workpapers to help promote consistency and standardization.

The Standards also list other common mechanisms for ongoing monitoring, such as:

- Checklists or automated tools to provide assurance on internal auditors' compliance with established methodologies and to facilitate consistent performance of internal audit services in conformance with the Standards. These may be especially important for use in internal audit functions with limited staff resources for supervision.
- Feedback from internal audit stakeholders regarding the efficiency and effectiveness of the internal audit team. Feedback may be solicited immediately after the engagement or periodically (for example, semiannually or annually) through survey tools or discussions between the chief audit executive and management.
- Other measurements that may be valuable in determining the efficiency and effectiveness of the internal audit function include metrics indicating the adequacy of resource allocation (such as budget-to-actual variance), the timeliness of engagement completion, the achievement of the internal audit plan, and surveys of stakeholder satisfaction.

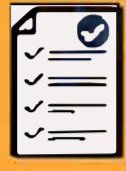
3 Methods for Balancing Assurance and Advisory Engagements

Determining the balance between assurance and advisory engagements is one of the methodologies that is established and implemented to manage internal audit operations. Achieving an optimal balance between assurance and advisory engagements is vital for the internal audit function to add value to the organization.

Assurance engagements focus on the adequacy and effectiveness of governance, risk management, and internal control activities and processes, whereas advisory, or consulting engagements, are more forward-looking, as they focus on helping to identify and implement improvements by providing advice on new policies, procedures, systems and products, training, and facilitating discussions on risks and controls.

The different types of engagements scheduled for a period of typically one year should be outlined in the internal audit plan based on an assessment of the organization's risks. The audit plan should be tracked by the chief audit executive and discussed with the board and senior management.

4 Methods for Managing External and Internal Audit Providers



Requirements

Standard 9.5 Coordination and Reliance

The chief audit executive must coordinate with internal and external providers of assurance services and consider relying upon their work. Coordination of services minimizes duplication of efforts, highlights gaps in coverage of key risks, and enhances the overall value added by providers.

If unable to achieve an appropriate level of coordination, the chief audit executive must raise any concerns with senior management and, if necessary, the board.

When the internal audit function relies on the work of other assurance service providers, the chief audit executive must document the basis for that reliance and is still responsible for the conclusions reached by the internal audit function.

4.1 Relying on the Work of Other Providers

There are various reasons why the CAE may choose to rely on the work of others, such as:

- to assess specialty areas outside the internal audit function's expertise;
- to decrease the amount of testing needed to complete an engagement; and
- to enhance risk coverage beyond the resources of the internal audit function.

4.2 Identifying External Providers

As indicated in the Standards, the CAE is responsible for developing a methodology for evaluating other (external) providers of assurance and advisory services. The evaluation should include a basis of whether the organization relies on their work.

External providers may include:

- Consultants with specialties in certain areas, such as IT, cybersecurity, or specific industry expertise
- Legal counsel
- External audit firms
- Forensic or valuation experts

The CAE should identify other assurance and advisory providers by communicating with senior management, reviewing the organizational reporting structure, and reviewing board meeting agendas or minutes.

If external assurance providers are utilized, they may report to senior management, external stakeholders, or the CAE.

As part of determining if an external provider's work can be relied upon, the CAE should consider the provider's:

- Roles
- Responsibilities
- Organizational independence
- Competency
- Objectivity
- Due professional care applied to their work

4.3 Coordinating With External Providers

Once the need for external providers has been established and approved, it is important that appropriate coordination is in place to ensure all parties understand the objectives, scope, and results of the work to be performed.

Standard 9.5 provides the following examples of coordination of assurance activities with assurance and advisory service providers:

- Synchronizing the nature, extent, and timing of planned work.
- Establishing a common understanding of assurance techniques, methods, and terminology.
- Providing access to one another's work programs and reports.
- Using management's risk management information to provide joint risk assessments.
- Creating a shared risk register or list of risks.
- Combining results for joint reporting.

The process of coordinating assurance activities of both internal and external providers varies based on the size, complexity, and nature of the organization. It is the responsibility of the CAE to gather information that will help in the coordination of services. Such information may include the results of prior engagements and a schedule of upcoming engagements.

It is important to maintain documentation that includes:

- Documentation and implementation of the methodology to determine whether to rely on a provider's work.
- Documented agreements with other assurance providers confirming the specifications of the assurance work they will perform.
- Long-term agreements documenting the agreed-upon-relationship and specifics of the services to be provided.

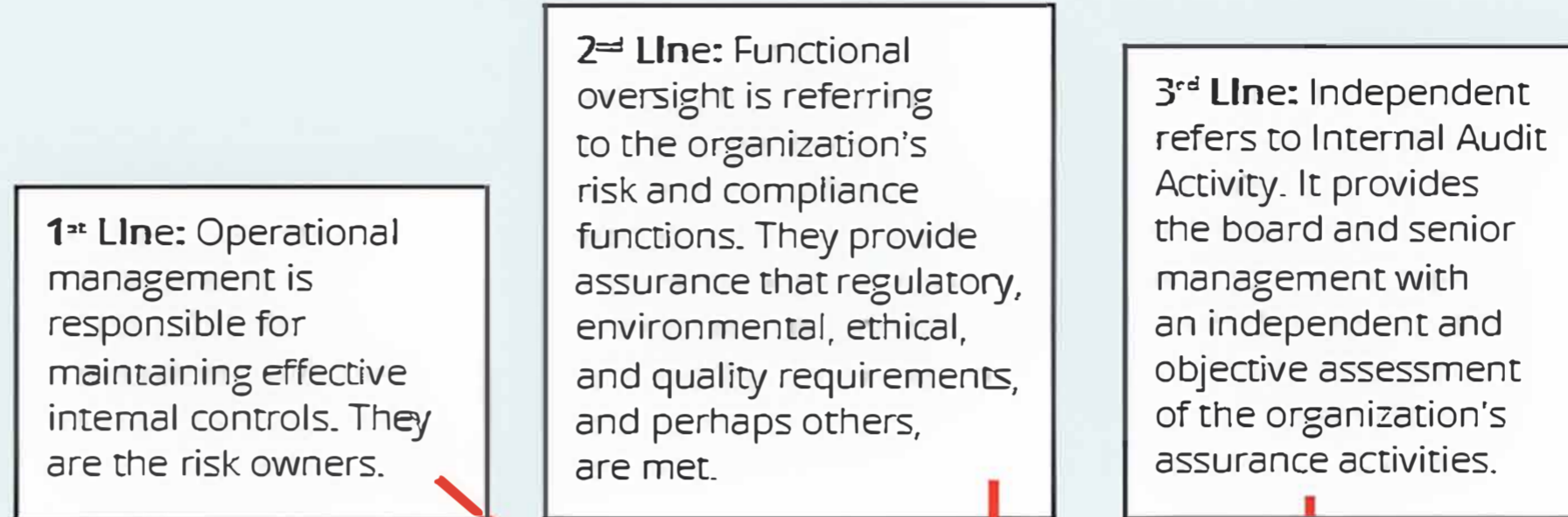
4.3.1 Assurance Map

An assurance map, or a matrix of the organization's risks, could be one method the organization uses to coordinate assurance coverage by linking identified significant risk categories with relevant sources of assurance.

Assurance maps provide an evaluation of the level of assurance for each risk category and help the organization identify gaps and duplications in assurance coverage. Due to the comprehensive nature of the assurance map, it helps the CAE to evaluate the sufficiency of assurance services in each risk area and to reduce the frequency and redundancy of engagements, thus maximizing the efficiency of assurance coverage. However, note that prioritization of resources can lead to gaps, as it is not equally valuable to cover all risks. Also, some areas may require coverage from multiple providers because of their complex and technical nature and high severity.

Example 1 Assurance Map

Developing an assurance map should be a collaborative effort, including both internal and external assurance providers. Once it is developed, the assurance map should be reviewed periodically and updated as necessary with input from all internal and external assurance providers. The example report below highlights what information should be included.



Example for Public Company: Risk Area	First Line				Second Line				Third Line			
	Finance	Human Resources	Legal	Information Technology	Management Committee	Compliance	Executive Team	IT Steering Committee	Internal Audit Function	Financial Statement Auditor's	External Review/Audit	Consultant
Financial												
Inaccurate Financial Reporting	X				X		X		X	X		
Bond Rating	X		X		X		X		X	X		
Strategic												
Market Competition	X		X		X		X					
Succession Planning		X			X		X		X			
Operational												
IT System Failure				X				X	X			X
Culture		X			X		X		X			X
Compliance												
Regulatory Non-Compliance			X			X	X		X	X	X	X
Earnings Reporting	X		X			X	X		X	X	X	X