

Domain I
Internal Audit Operations
(25%)

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All Section

- Section A of Part 3 discusses internal audit operations comprising 25% of the Part 3 exam.
- Remember to read the answers to all questions whether solved correctly or incorrectly.
- When reviewing the lecture before the exam, emphasize and concentrate on questions solved incorrectly in prior solving attempts.

NOTES

A. 1 Internal Audit Methodologies

Learning Outcomes:

1. Describe methodologies for the planning, organizing, directing, and monitoring of internal audit operations
 - 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.

Managing the Internal Audit Function

- A. Domain-IV of the Standards discusses the aspects related to managing the internal audit function stating the responsibilities of the CAE for managing the internal audit function in accordance with the internal audit charter and the Standards. These responsibilities, which will be discussed in different sections of Part-III, include:
 1. Strategic planning.
 2. Obtaining and deploying resources.
 3. Building relationships and communicating with stakeholders.
 4. Ensuring and enhancing the performance of the function.
- B. The individual responsible for managing the internal audit function is expected to conform with the Standards whether the individual is directly employed by the organization or contracted through an external service provider. The specific job title and responsibilities may vary across organizations.
 1. The CAE may delegate appropriate responsibilities to other qualified professionals in the internal audit function but retains ultimate accountability.
- C. The direct reporting relationship between the board and the CAE enables the internal audit function to fulfill its mandate. In addition, the CAE typically has an administrative reporting line to the highest-ranking person in senior management, such as the CEO, to support day-to-day activities and establish the status and authority necessary to ensure the results of the internal audit services are given due consideration.

Internal Audit Methodologies

- A. **Methodologies** are policies, processes, and procedures established by the CAE to guide the internal audit function and enhance its effectiveness.
- B. The Standards state that the CAE must:
 1. Establish methodologies to guide the internal audit function in a systematic and disciplined manner to:
 - a. Implement the internal audit strategy.
 - b. Develop the internal audit plan.
 - c. Conform with the Standards.
 2. 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.
 3. Provide internal auditors with training on the methodologies.

- C. **The Roles** – Internal audit methodologies:
1. **Supplement** the Standards by providing specific instructions and criteria that help internal auditors implement the Standards and perform services with quality.
 2. **Describe** processes and procedures for communicating, handling operational and administrative matters, and overseeing the internal audit function.
- D. **The Form** – Methodologies may:
1. Exist as individual documents (such as standard operating procedures),
 2. Be collected into an internal audit manual, or
 3. Be integrated into internal audit management software.
- E. The form, content, level of detail, and degree of documentation of methodologies may differ based on the size, structure, complexity, industry/regulatory expectations, and maturity of the organization and the internal audit function.
1. While a large, mature internal audit activity may have a formal internal audit operations' manual that includes the methodologies, a smaller or less mature internal audit activity may not. Instead, methodologies may be published as separate documents.
- F. **The Content of Methodologies** – Documented methodologies that are most likely to be necessary to implement the strategy, achieve the internal audit plan, and conform with Standards include the internal audit function's approach to:
1. Assessing risks for the organization and for each engagement.
 2. Developing and updating the internal audit plan.
 3. Determining the balance between assurance and advisory engagements.
 4. Coordinating with internal and external assurance providers.
 5. Managing external service providers, when used.
 6. Performing internal audit engagements.
 7. Communicating throughout internal audit services.
 8. Retaining and releasing engagement records and other information, consistent with the organization's guidelines and pertinent regulatory or other requirements.
 9. Monitoring and confirming the implementation of internal auditors' recommendations or management's action plans.
 10. Assuring the quality and improvement of the internal audit function.
 11. Developing performance measurements to assess progress toward meeting objectives.
 12. Performing additional services identified in the internal audit mandate.
- G. **Evaluating the Effectiveness of the Methodologies**
1. The effectiveness of the internal audit methodologies should be reviewed during assessments of the internal audit function's quality.
 2. Reasons for updating established methodologies include:
 - a. Significant changes in:
 - i. The Standards and guidance
 - ii. Legal and/or regulatory requirements.
 - iii. Technology.

- iv. Department size or composition.
 - b. A change of the CAE or board chairman may also warrant the review and revision of internal audit methodologies.
- H. To ensure internal audit personnel are properly informed about internal audit methodologies, the CAE may issue individual documents, training materials, or a comprehensive manual; and training sessions may be conducted to review the information.
- I. **Examples of Evidence of Conformance** with the requirements of the Standards related to the methodologies:
 - 1. Documentation of software program incorporating methodologies.
 - 2. Meeting agendas and minutes, emails, signed acknowledgments, training schedules, or similar documentation evidencing communications to internal audit personnel about internal audit methodologies.
 - 3. Documentation of quality reviews of audit work demonstrating that methodologies are followed.
 - 4. Footnotes or endnotes within the methodologies or internal audit manual citing the standard that the content is addressing.
 - 5. Documentation of updates to the methodologies.