

Internal Audit

FINANCE LEARNING FORUM

ICF Diakonia Centre

April 23, 2015

Introduction

Presentors

Participants' Profile

Ground Rules

- Mute the phone
- No phone conversation inside the session hall
- Use the “Parking lot” for questions, not requiring immediate response
- Raise hand – if there’s a question

Sessions for Today:

- IA & Challenges at the workplace
- Internal audit and the Organization
- IA and Internal controls
- IA services and activities
- IA Response towards Today's challenges

Session 2:

Internal Audit and Challenges at the Workplace

Challenges at the Workplace

What are the obstacles that you face in carrying out your duties and responsibilities, where IA can assist or provide support?

Challenges at the Workplace

1. Limited knowledge:

- Accounting
- Nature of business
- Fraud Scheme
- Internal controls
- Financial Manual
- Risks

2. Limited opportunities

- Training/ staff development
- Travel

3. Lack of coaching and support from the management

Session 3:

Internal Audit and the Organization

Topics:

- Definition of Internal Audit (IA)
- IA's independence
- IA's mandate and Guidance
- IA and the Organization
- Organization's objectives

B. IA Definition

“Internal auditing is an independent, objective *assurance* and *consulting activity* designed to *add value* and improve an organization’s operations.”

Source: The Institute of Internal Audit (The IIA)

B. IA Definition

“It helps an organization accomplish its *objectives* by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of *risk management, control, and governance processes.*”

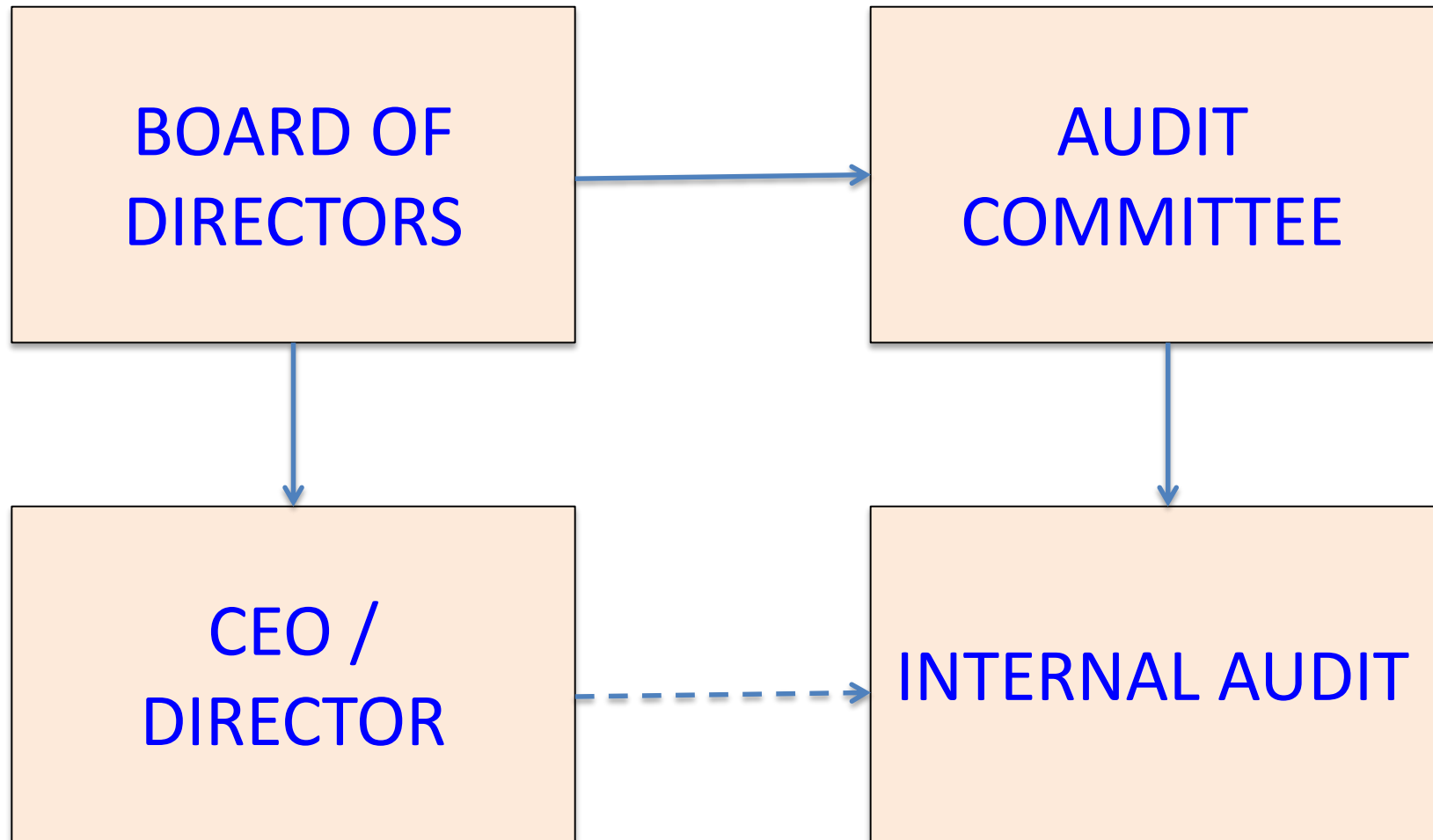
Source: The Institute of Internal Audit (The IIA)

IA and its Independence

Good practice reporting arrangement:

- Functional Reporting to the Audit Committee
- Administratively Reporting to CEO

IA and the Organization's Structure



Functional Reporting involves AC in:

- Reviewing and approving the IA *charter*.
- Approving all decisions regarding performance evaluations, appointment, or removal of the chief audit executive.
- Reviewing and approving the strategic IA plan, often for a 3–year period.
- Reviewing and approving the annual IA plan and any changes made

Functional Reporting involves AC in

- Reviewing reports on the results of IA engagements, audit-related activities, etc.
- Meeting privately with the CAE at least once each year without the CEO present.
- Making enquiries of the CAE to determine whether there are scope or budget limitations that impede the execution of IA responsibilities.

IA - Independence

Administrative Reporting to CEO

- IA resources and annual budget.
- Provision of services to IA including office accommodation, transport computers & equipment.
- Human resource administration, including performance

IA's Guidance

The IA charter provides the in-house guidance for IA work

For the conduct of its work, IA is required to conform to the mandatory requirements of Intl Prof. Practice Framework issued by the The IIA

Audit Charter

A formal written document that defines the ***purpose, authority, and responsibility*** of the Internal Audit. It

- Establishes the Internal Audit's ***position*** within the organization;
- Authorizes ***access*** to records, personnel, and physical properties relevant to the performance of engagements; and
- Defines the ***scope of work***.

The IIA Mandatory Requirements

- The Definition of Internal Auditing
- The Code of Ethics
- The International Standards for Professional Practice of Internal Auditing

The IIA Code of Ethics

The principles and expectations governing the behavior of individuals and organizations in the conduct of internal auditing.

It describes the minimum requirements for conduct, and behavioral expectations rather than specific activities.

The IIA Code of Ethics

Introduction to the Code of Ethics

- The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing.

The IIA Code of Ethics

- Code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the *trust* placed in its objective assurance about governance, risk management, and control.

IIA Code of Ethics - Principles

- Integrity
- Objectivity
- Confidentiality
- Competency

IIA Code of Ethics - Principles

Integrity

- The *integrity* of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

IIA Code of Ethics - Principles

Objectivity

- Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by

IIA Code of Ethics - Principles

Competency

- Internal auditors apply the *knowledge, skills, and experience* needed in the performance of internal audit services.

IIA Rules of Conduct - Integrity

Internal auditors:

- 1.1 Shall perform their work with *honesty, diligence, and responsibility.*
- 1.2 Shall *observe the law and make disclosures* expected by the law and the profession.
- 1.3 Shall *not* knowingly be a *party to any illegal activity*, or engage in acts that are *discreditable to the profession* of internal auditing or to the organization.
- 1.4 Shall *respect and contribute* to the *legitimate and ethical objectives* of the organization.

IIA Rules of Conduct - Objectivity

Internal auditors:

2.1. Shall *not participate* in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.

2.2. Shall *not accept* anything that may impair or be presumed to impair their professional judgment.

2.3. Shall *disclose all material facts* known to them that, if not disclosed, may distort the reporting of activities under review.

IIA Rules of Conduct - Confidentiality

Internal auditors:

3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

IIA Rules of Conduct-

Competency

Internal auditors:

4.1. Shall *engage only* in those services for which they have the necessary knowledge, skills, and experience.

4.2. Shall *perform internal audit* services in accordance with the International Standards for the Professional Practice of Internal Auditing (*Standards*).

4.3. Shall *continually improve* their proficiency and the effectiveness and quality of their services.

Understanding the Organization

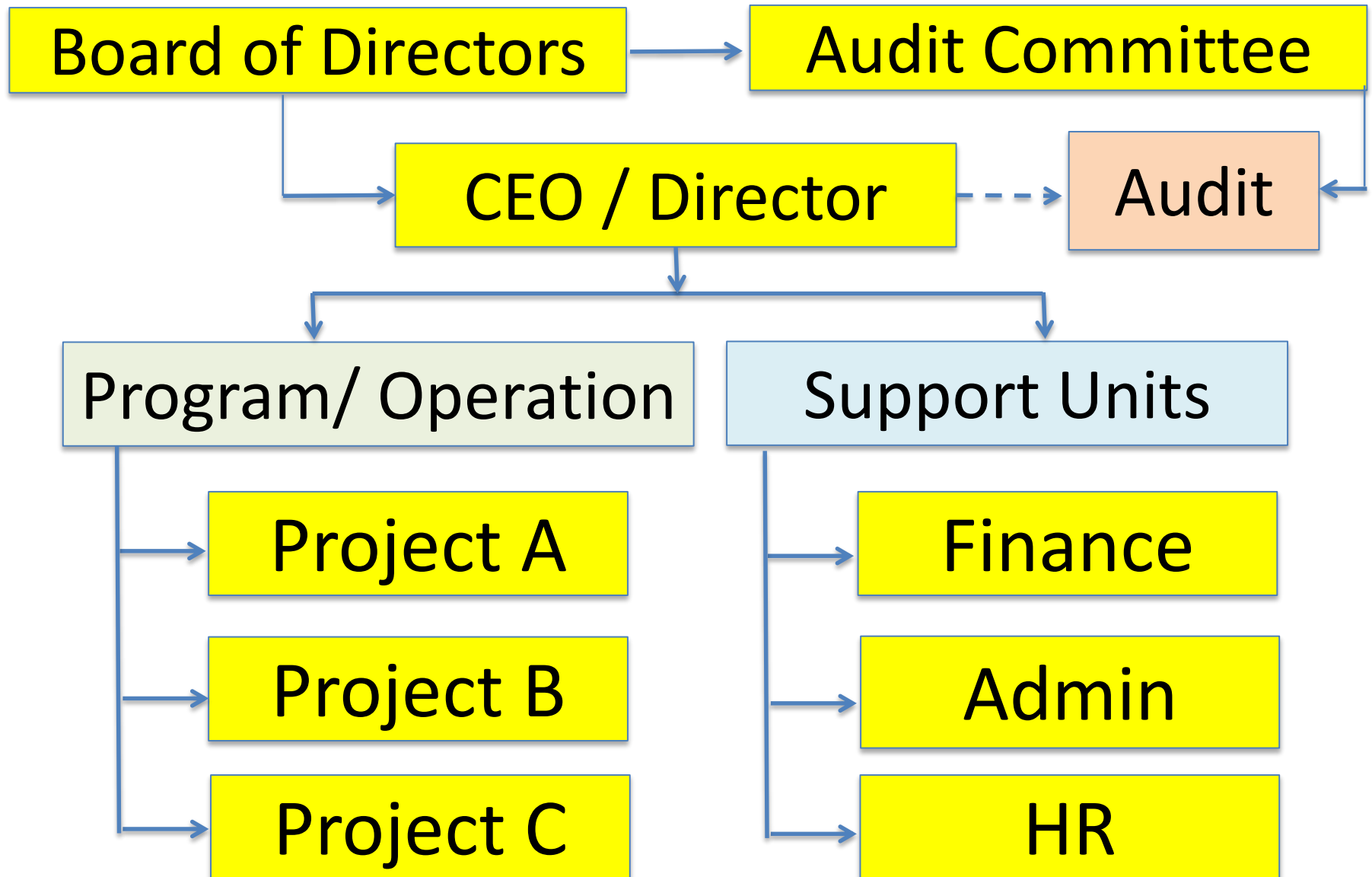
In the IIA definition,

- It states that the IA helps the organization in accomplishing its **objectives . . .**

Understanding the Organization

- Mission – the purpose for which the organization exists
- Its Vision - an inspiring, long-term view of where the organization is heading.
- Core Values – “what you stand for”
- Goals & Objectives – core purpose
- Plans – program, activities
- Budgets – funding needed

Organization's Structure

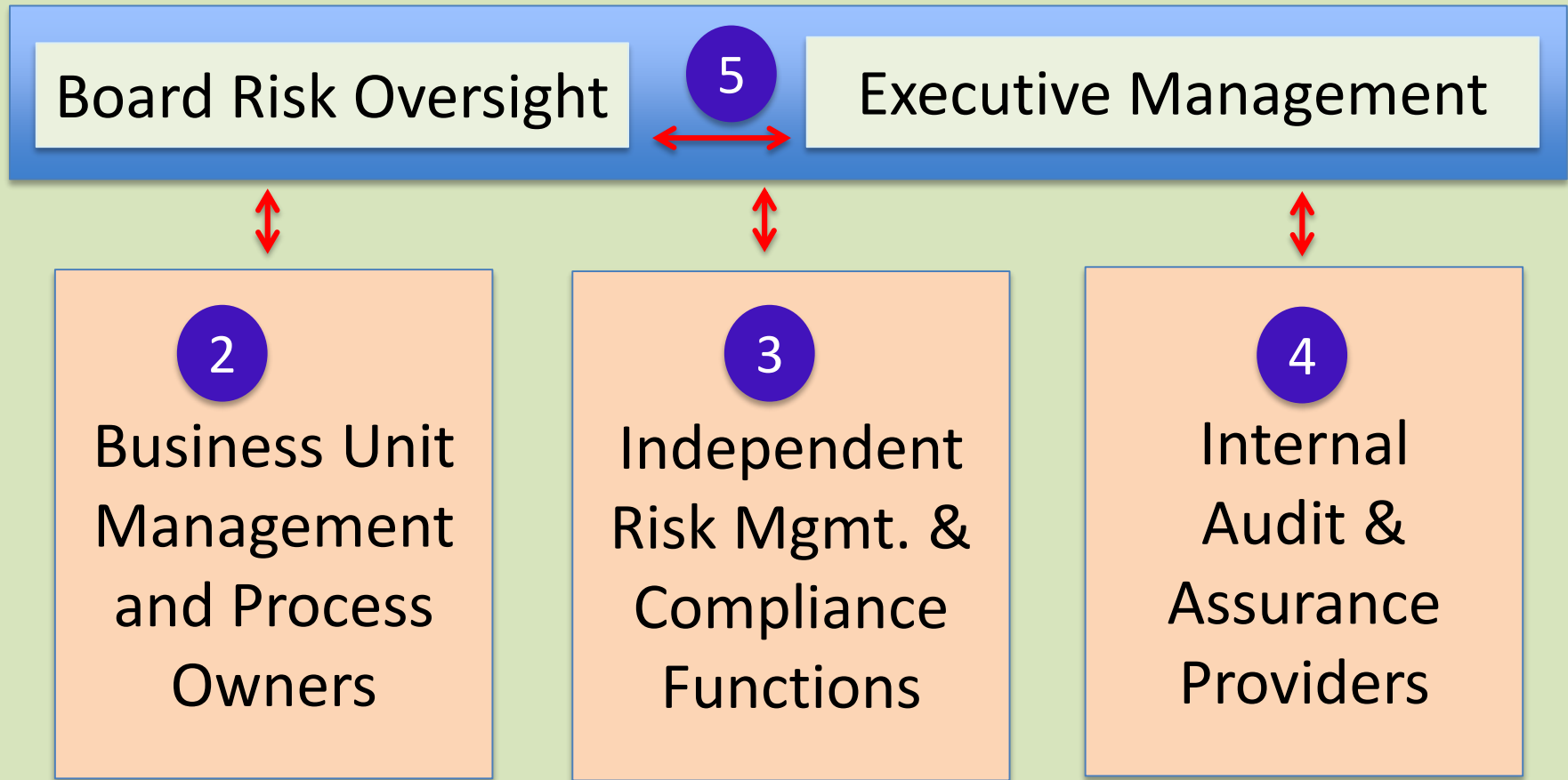


Organization's Objectives

- Reliable Financial Report
- Efficient and Effective Operation
- Compliance with Applicable Laws and Regulations

Assurance Environment

1 Tone of the Organization



IA and its importance

- A key component in the assurance structure of the organization
- Coordination of various assurance activities provides a holistic assurance environment
- Cornerstone of good governance within the organization, to help improve management and accountability, both financial and non financial activities

Definition of Terms

Who are the Stakeholders?

- Board of Directors,
- Audit Committee,
- Chief Executive Officer or Head of the Organization,
- Donors,
- Senior Management

Definition of Terms

Catalyst – a person that quickly causes change or action

Plan International

Our vision

- Plan's vision is of a world in which all children realise their full potential in societies that respect people's rights and dignity.

Plan International - Mission

- Plan aims to achieve lasting improvements in the quality of life of deprived children in developing countries, through a process that unites people across cultures and adds meaning and value to their lives, by:

Plan International - Mission

- Enabling deprived children, their families and their communities to meet their basic needs and to increase their ability to participate in and benefit from their societies

CARE – Core Values

At the core of all we do, CARE values:

Respect: We affirm the dignity, potential and contribution of participants, donors, partners and staff.

Integrity: Our actions are consistent with our mission. We are honest and transparent in what we do and say, and accept responsibility for our collective and individual actions.

Commitment: We work together effectively to serve the larger community.

Excellence: We constantly challenge ourselves to the highest levels of learning and performance to achieve greater impact.