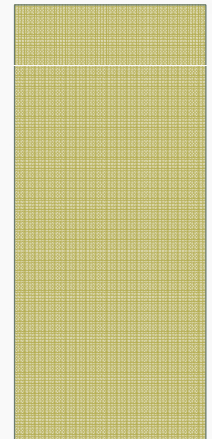


# THE INTERNAL AUDIT FUNCTION



PERSPECTIVES ON REFORM



# AN EVOLVING PROFESSION

- Prior to 1941:
  - Manual record-keeping, poor systems
  - Railroad companies: the first modern employers
  - Primary risks: error and theft
  - IA function: **clerical**
- Since then:
  - Technology: advanced information systems, automated controls
  - Complex organizational structures
- Today
  - High-level risks
  - Professional judgment; **independent**, objective assurance and consulting activity
  - Helps an organization accomplish its objectives
  - Banking Sector Requirement
  - Role in combating corruption - international conventions against corruption (ex. UNCAC)

# IA WITHIN THE PUBLIC SECTOR

- Acknowledged in/by:
  - literature / standards: Std's 9140 & 9150 of INTOSAI (Int'l Org of Supreme Audit Institutions)
  - research efforts: IFACI (The Institut Francais de l'Audit et du Controle Internes)
  - current practice: USA, UK, France, Brazil , Japan, South Africa, Bahrain...
- A decentralized function:
  - Specific to each individual governmental unit / ministry
    - Advisory capacity to its management
      - Presence – unique skill-set
  - may NOT be replaced by an external / centralized audit function

# THE EFFECTIVE IA FUNCTION

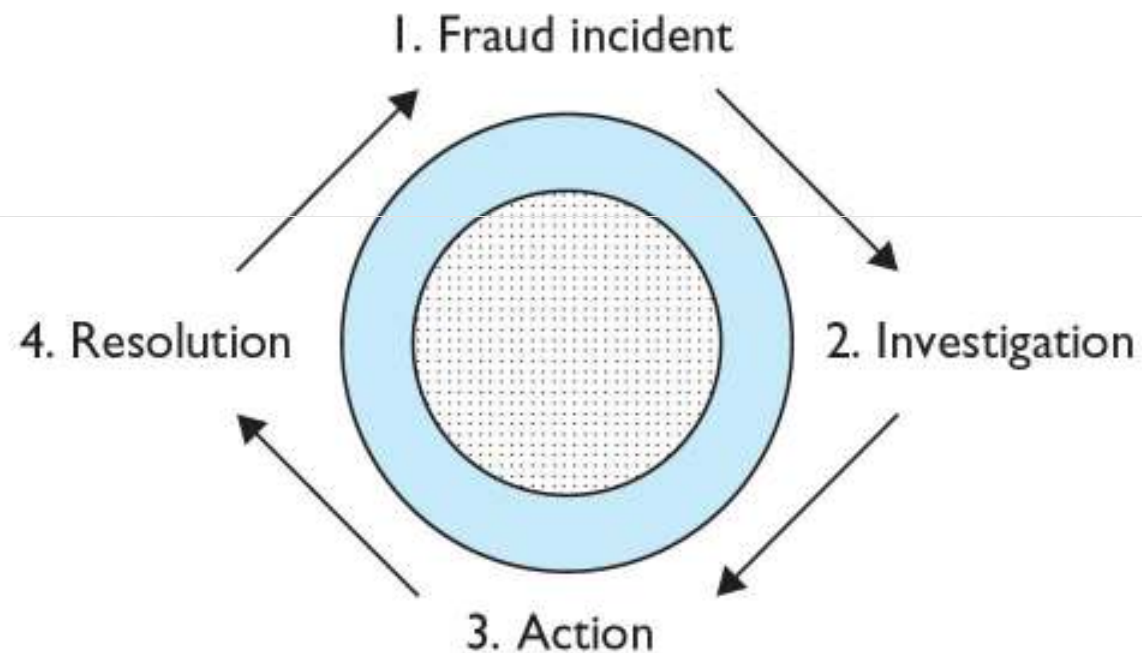
- The IA Charter:
  - A clear / formal statement establishing the IA mandate
  - Reviewed periodically
    - **Role & responsibility:**
      - To provide a formal and **impartial review and appraisal** of the **design, implementation and effectiveness** of operational activities & the risk (including FRAUD) management, control, & governance processes
        - Clearly distinguished from management's responsibilities
      - To assist management
      - To assist the BOD / Audit Committee /High authority
    - **Independence: KEY**
      - No line responsibilities; floating control
      - Free from any interference

# THE EFFECTIVE IA FUNCTION

## THE IA CHARTER (CONT'D)

- **Reporting lines:**
  - Administrative: to the president / CEO/ Minister
  - Functional: to the Audit committee / BOD/Council (high authority)
- **Authority:**
  - Unrestricted access – without delay - to records, information, physical properties, personnel & audit committee
- **Scope of work:**
  - Integrity and reliability of financial and operational information
  - Effectiveness and efficiency of operations
  - Safeguarding assets
  - Compliance with laws, regulations, contracts & codes of conduct

# DEALING WITH FRAUD & CORRUPTION: CURRENT (REACTIVE) MODEL



# DEALING WITH FRAUD& CORRUPTION: SUGGESTED (PROACTIVE) MODEL





# THE EFFECTIVE IA FUNCTION (CONT'D)

## Fraud & Corruption

- Explicit reference for responsibility in the Audit Charter
- If IA and F&C investigation functions are separate:
  - **“the risk of non pursuit of control deficiencies increases [...], even more so if it exists separately and outside the ministry”.**
  - Responsibilities shared and clearly stated
  - Work programs should be coordinated
  - Findings / internal control deficiencies should be communicated

**Follow up** : adequacy and implementation of **corrective measures**

**Coordinate with external auditors** to ensure adequate audit coverage & minimize duplicate efforts

Develop **an IA activity plan** of engagements based on:

- The risk assessment of organizational activities
- Input of senior management/ the BOD/ higher authority
- Efficient & effective use of resources.
- Submit the plan to the **BOD/Council and to senior management** as appropriate, along with the staffing plan & financial budget **for approval**



# CONCLUSION

**IA should be the 'eyes and ears' of the authorities to which it is accountable:**

- **Clear statement of role**
- **Intent to deliver its full potential: empowerment**

- **Sources:**

- **Zimbelman, M. & Albrecht, C.; Forensic Accounting, 4<sup>th</sup> ed. Cengage, 2012**
- **Internal Control and Internal Audit: Ensuring Public Sector Integrity and Accountability; OECD, 2011**

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