

# Audit & Assurance

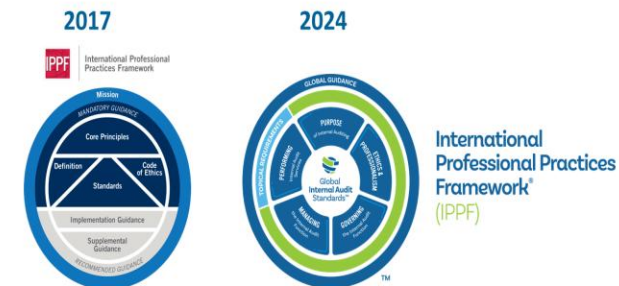
## Topic 6: Internal Auditing

MBA II – Semester I, 2025/2026

22<sup>nd</sup> October 2025



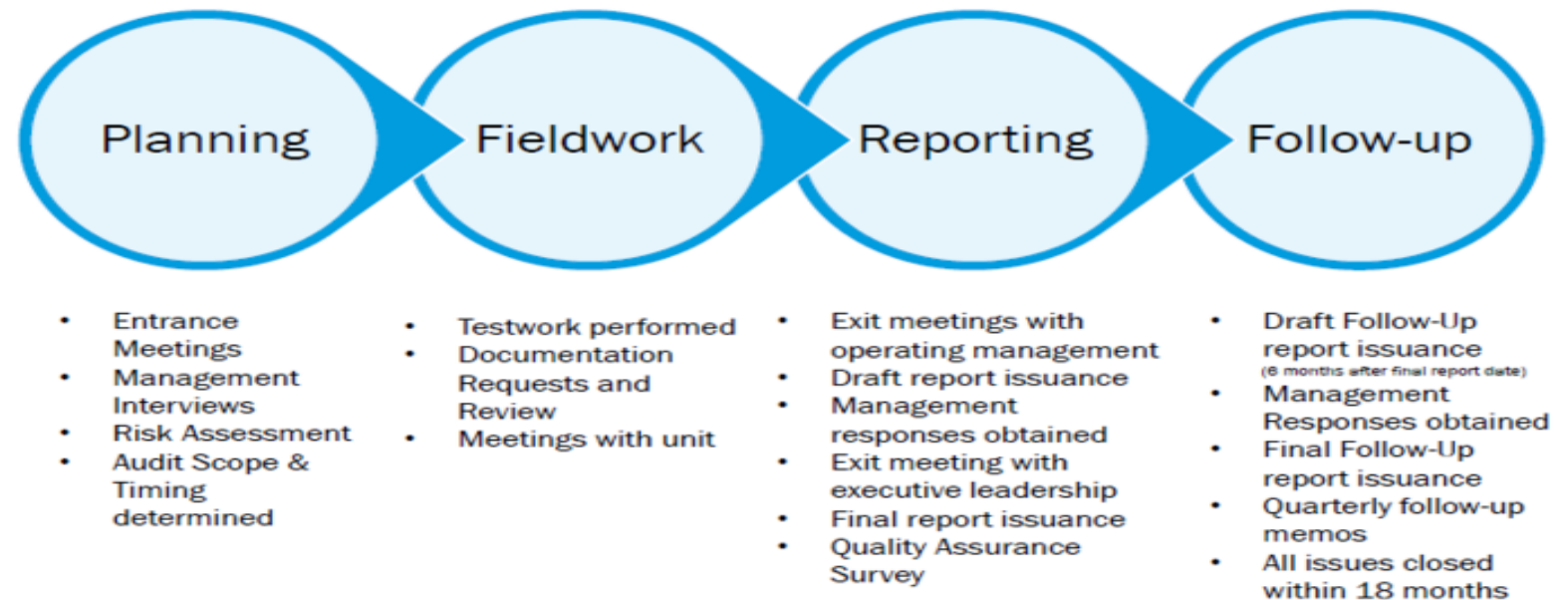
The IPPF Evolution



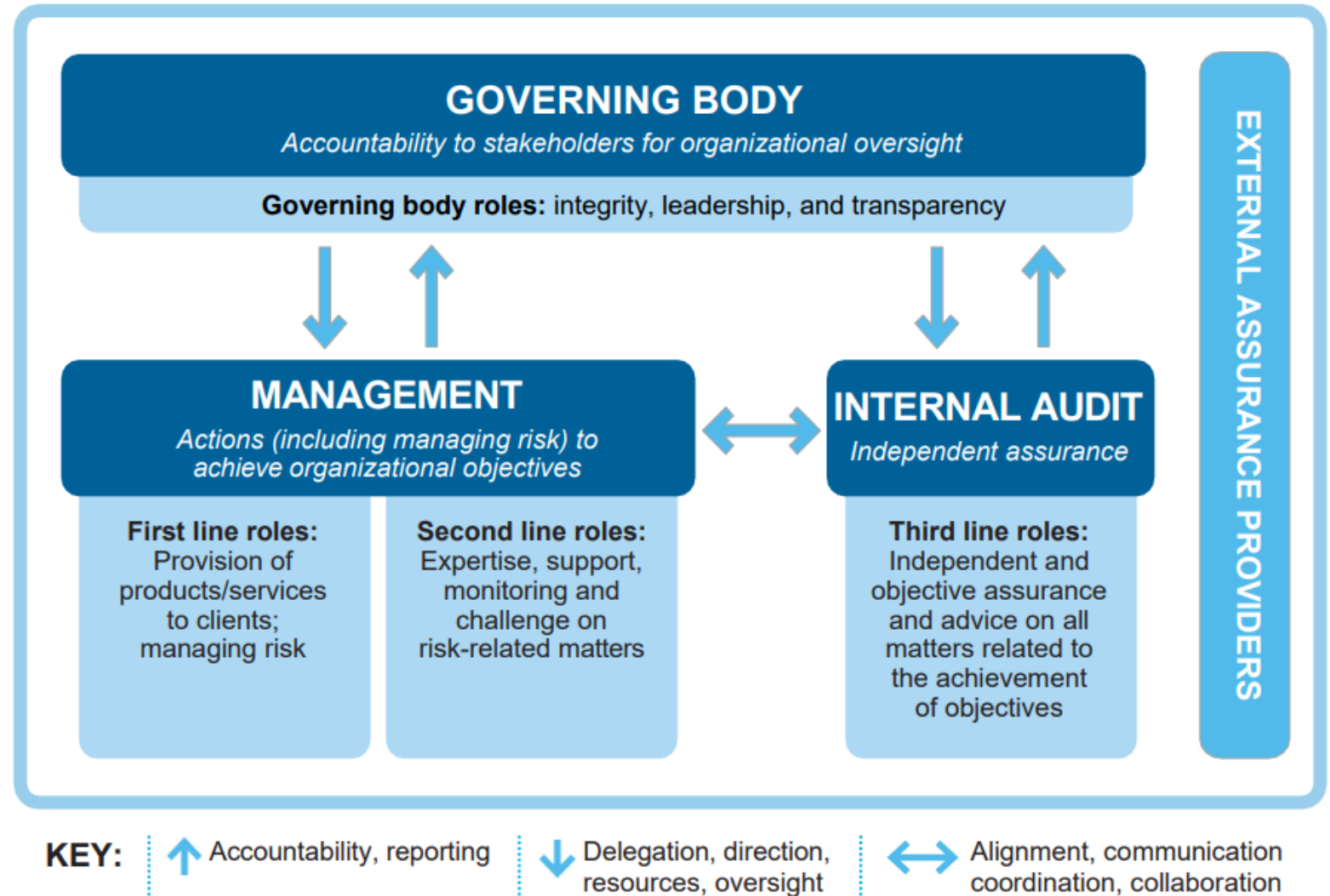
# Meaning & phases of Internal Auditing

- Internal auditing is an **independent, objective assurance and consulting** activity designed to add value and improve an organisation's operations.
- It helps an organisation accomplish its objectives by bringing a **systematic, disciplined approach** to evaluate and improve the effectiveness of risk management, control, and governance processes.

## Typical Phases of an Internal Audit



# The three lines model



# Global Internal Audit Standards (GIAS)

## New Structure of GIA Standards

5 Domains

↳ 15 Principles

↳ 52 Standards

- Requirements
- Considerations for Implementation
- Examples of Evidence of Conformance

*Note: These elements help the internal auditors in achieving the principles and fulfill the Purpose of Internal Auditing.*

### **Additional features:**

- Fundamentals of GIA Standards
- Applying the GIA Standards in the Public Sector
- Glossary

## 2024 Global Internal Audit Standards





The Institute of  
**Internal  
Auditors**

## The core Principles of Internal Audit

- Principles as issued by the Institute of Internal Auditors (IIA) define tangible internal audit effectiveness.
- When all Principles are present and operating cohesively, the internal audit function achieves **maximum efficiency**.
- Though the way every internal auditor approaches these Core Principles may vary from organisation to organisation, there's no denying that a failure to achieve any of the Principles would signal an internal audit activity that's not performing at its absolute best.



# The core Principles of Internal Audit

- Demonstrates integrity. Integrity is everything in the world of internal auditing.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organizational improvement.



# Purpose of



**The purpose statement** is intended to assist internal auditors and internal audit stakeholders in understanding and articulating the value of internal auditing.

## **Purpose Statement**

- Internal auditing strengthens 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.

## **Internal auditing enhances the organization's:**

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



# Effectiveness of internal audit Function

## 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.



# Factors in assessing the need for internal audit

- The **cost** of setting up an internal audit department compared to its benefits.
- The **size and complexity** of the entity – the larger and more complex the entity is, the greater the need. Usually, no need in small owner managed entities as owners exercise more direct control over operations.
- The **role** that would be played by the internal audit department, such as internal control reviews.
- Whether there are **existing managers** or employees who could perform these tasks, thereby reducing the need to establish a separate internal audit department.
- The **risk of fraud** – the higher the risk of fraud, the greater the need to act as both a deterrent and to possibly undertake fraud investigations.
- The **pressure** from external stakeholders to have an internal audit.

# Responsibility of internal auditors

- The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal controls, as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives.

## Responsibility of internal auditors

- Evaluating **risk exposure** relating to the achievement of the organisation's strategic objectives.
- Evaluating the **reliability** and **integrity** of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure **compliance** with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation.
- Evaluating the means of **safeguarding** assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which **resources** are employed.

## Responsibility of internal auditors

- ❑ Evaluating **operations** or **programs** to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- ❑ Monitoring and evaluating **governance** processes.
- ❑ Monitoring and evaluating the effectiveness of the organization's **risk management** processes.
- ❑ Evaluating the **quality of performance of external auditors** and the degree of coordination with internal audit.

## Responsibility of internal auditors

- ❑ Performing **consulting** and **advisory** services related to governance, risk management and control as appropriate for the organisation.
- ❑ Reporting **periodically** on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- ❑ Reporting **significant risk** exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- ❑ Evaluating **specific operations** at the request of the Board or management, as appropriate.

# Regulation of internal auditors

- Global internal audit standards
- Accountants Act 2013
- Companies Act 2012
- Public Finance and Management Act 2015
- Local Government Act
- Internal audit manuals and policies



# Internal audit activities

- **Value for money audit** on behalf of management to assess economy, efficiency and effectiveness of an entity's operations. **Economy** means using resources (inputs) at the lowest cost. **Efficiency** is a measure of the relationship between goods and services produced (outputs) and the resources used to produce them (inputs). **Effectiveness** is how well an activity achieves its policy objectives or other intended effects.
- **Financial audits** by carrying out substantive procedures of transactions and balances to ensure fair presentation of financial statements and management reports.
- **Operational audits** are audits of the operational processes of an entity. They are also known as management or efficiency audits. Their main objective is to monitor management's performance, ensuring that entity policies are adequate and work effectively, e.g., adherence to procurement procedures.
- Testing **internal controls** and making recommendations on how to improve them, e.g. performs tests of controls on sales, purchases, cash, payroll, inventory and capital transactions.

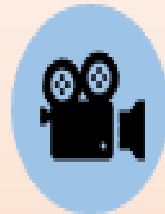


# Internal audit activities

- **Information technology audits**, e.g. system development, access control, database management.
- **Compliance audits** – review compliance with laws and regulations.
- **Entity risk management**: Monitors the company's overall risk management policy to ensure it operates effectively. Monitors the strategies implemented to ensure that they continue to operate effectively.
- **Fraud investigations** – review and test controls to prevent or detect fraud, investigate any suspected fraud and make reports recommending improvements.
- **Customer service reviews** – internal auditors may be asked to assess the level of customer service. They could do this by phoning in or visiting stores/outlets and pretending to be customers. Alternatively, they could review and analyse the results of customer surveys.

# Internal audit activities

## Internal Audit



**Monitoring of  
Internal Control**



**Examination  
of Financial &  
Operating  
Information**



**Risk Management**



**Review of  
Compliance with  
Laws & Regulation**



**Governance**



**Review of  
Operating Activities**





**TOGETHER**  
**WE CAN ACHIEVE MORE**

HIGH STANDARDS OF INTEGRITY



|                            | External audit  | Internal audit   |
|----------------------------|---|--|
| Objective                  | To enable auditors to express an opinion on the financial statements  | To improve an entity's operations by reviewing the efficiency and effectiveness of its activities.                 |
| Scope                      | Relates to financial statements and financial records that underlie them.   | Relates to an entity's operations including value for money audit.   |
| Relationship to the entity | External auditors are independent of the entity and its management. In a company, they are appointed by the shareholders. | Internal auditors are often employees of the entity, although sometimes the internal audit function is outsourced. |
| Reporting                  | External auditor reports to shareholders in case of a company, to Parliament in case of government or an equivalent body. | Internal audit reports to the board of directors and the Audit committee.  |
| Fraud                      | External auditors have no responsibility to detect fraud within a client.   | Helps management to fulfil its responsibility for preventing and detecting fraud.                                  |

## Differences between internal audit, risk management, & Compliance function

| Aspect                                       | Internal Audit   | Risk Management  | Compliance  |
|--|--|--|---|
| <b>Primary Purpose</b>                       | Provides independent assurance on the effectiveness of governance, risk management, and control processes. | Identifies, assesses, and mitigates risks that could prevent the organisation from achieving objectives. | Ensures the organisation complies with applicable laws, regulations, and internal policies. |
| <b>Role in the “Three Lines Model” (IIA)</b> | <b>Third Line</b> – Independent assurance to the board/audit committee.                                    | <b>Second Line</b> – Oversight, monitoring, and advising on risk.  | <b>Second Line</b> – Oversight, monitoring, and advising on compliance obligations.         |
| <b>Reporting Line</b>                        | Functionally to the audit committee/board; administratively to senior management.                          | Typically to the Chief Risk Officer (CRO) or senior executive.   | Typically to the Chief Compliance Officer (CCO) or legal department.                        |



| Aspect        | Internal Audit   | Risk Management  | Compliance   |
|---------------|--|--|--|
| Scope of Work | Reviews all areas of the business; tests controls; recommends improvements.  | Focuses on identifying and managing strategic, operational, financial, and reputational risks. | Focuses on adherence to legal, regulatory, and policy requirements.          |
| Time Horizon  | Often retrospective (evaluating past activities) but can be forward-looking. | Forward-looking (anticipates potential threats and opportunities).                             | Ongoing and present-focused (ensuring current operations meet requirements). |
| Independence  | Independent of operations.   | Not fully independent; works closely with business units.                                      | Not fully independent; works closely with business units.                    |
| Key Output    | Audit reports with findings, ratings, and recommendations.                   | Risk registers, risk reports, heat maps, mitigation plans.                                     | Compliance reports, regulatory filings, policy training records.             |

| Aspect             | Internal Audit   | Risk Management  | Compliance  |
|--------------------|--|--|---|
| Example Activities | Testing effectiveness of internal controls, auditing procurement, investigating fraud. | Performing risk assessments, scenario analysis, advising on mitigation strategies. | Monitoring regulatory changes, training staff on anti-money laundering (AML), reviewing contracts for compliance. |
| Skillset Needed    | Audit methodologies, control testing, analytical and investigative skills.             | Risk frameworks (ISO 31000, COSO ERM), scenario planning, business acumen.         | Legal/regulatory knowledge, policy interpretation, ethics training.   |

## In short:

- Risk Management is about identifying and addressing risks before they become issues.
- Compliance is about making sure rules are followed.
- Internal Audit is about independently checking whether both risk management and compliance (and other controls) are actually working.

# Regulatory framework for internal auditing

- ❖ The Global Internal Audit Standards (GIAS)
- ❖ The Financial Institutions Act, 2004 (as amended);
- ❖ The Financial Institutions (Corporate Governance) Regulations, 2024
- ❖ The Public Finance Management Act, 2015
- ❖ The Local Government Act, 1997 (as amended) etc.

# What must be available before conducting Internal Audit

- Internal audit Mandate (Laws & Regulations e.g., sec 60 of the Financial institutions act, PFM Act 2015 etc.).
- Board Audit Committee Charter
- Internal audit charter
- Internal strategy / strategic plan
- Internal audit manual
- Annual internal audit plan (audits that will be carried out each quarter, the resources, scope etc.
- **NB:** These must be aligned with overall organizational strategy, governance, risk management and assurance environment of the organization.

# Conducting the internal audit. #1 . planning

|  |           |
|--|-----------|
| <b>Domain V: Performing Internal Audit Services.....</b> | <b>92</b> |
| <b>Principle 13 Plan Engagements Effectively.....</b>    | <b>93</b> |
| Standard 13.1 Engagement Communication.....              | 93        |
| Standard 13.2 Engagement Risk Assessment.....            | 95        |
| Standard 13.3 Engagement Objectives and Scope.....       | 98        |
| Standard 13.4 Evaluation Criteria.....                   | 100       |
| Standard 13.5 Engagement Resources.....                  | 101       |
| Standard 13.6 Work Program.....                          | 103       |



# Engagement communication

- **Requirement**

- Internal auditors must communicate effectively throughout the engagement.
- Internal auditors must communicate the **objectives, scope, and timing** of the engagement with management.

- **Evidence**

- Documentation (emails, meeting minutes, notes, or memos) showing that the required communications occurred throughout the engagement.
- Documentation of feedback received (such as through surveys) from the management of the activity under review.

# Engagement risk assessment

Risk assessment is done to identify the risk exposures of the entity.

## **Review:**

- Prior internal audit reports
- Regulator inspection reports
- External audit reports
- Risk control self-assessment (RCSA) etc.
- Observations

The results of the preliminary risk assessment helps in developing value adding **objectives** of the audit.

# Engagement objectives, scope

- Purpose of the engagement
- Specific goals / objectives
- *Internal auditors should align the **engagement objectives** with the **business objectives** of the activity under review, as well as with those of the organization.*

| Business objective                                      | Engagement objective   | Scope (Activities & timing) |
|---|--|-----------------------------|
| To ensure that 90% of the MBA students graduate on time | To evaluate whether the MBA graduates are impacting their organizations positively | Teaching, examination,      |
| To develop digital channels ....                        | To examine the contribution of the new channels to business growth                 |                             |

## Out puts of engagement planning & risk assessment

- Engagement planning memorandum (objective, scope, resources, schedule / timetable, risk assessment, methods , communication plan).
- Engagement work program (objective, criteria, tasks (procedures), tools to audit, population, sample, sampling approach, auditor, working paper reference.
- Engagement working papers

# Internal Audit Reporting Process

- 1. Writing the **first draft** of the audit report.
- 2. Obtaining **observation/finding vetting** and supervisory review.
- 3. **Socializing** the report with the activity under review.
- 4. Incorporating **management's response** and action plans.
- 5. **Finalizing** the audit report.

# Conclusion

