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Internal Audit – Friend or Foe??

IMA – October 16, 2008

PKF Texas...the fit that's right!



Topics

- What is Internal Audit?
- Internal Audit Framework
- Quality Assurance Review
- Fraud
- Consulting
- Q&A
- Internal Audit Resources
- Contact Information



Internal Audit

- Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. 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.



Types of Internal Audits

- Financial
 - Frequently includes SOX testing
- Operational
 - Example: Project Management Process
 - Example: Supply Chain
- Information Technology (IT)
 - Applications
 - Security
- Compliance
 - FCPA
 - Financial Institutions Regulations



Institute of Internal Auditors

- 150,000 Members Worldwide
- Sets Internal Audit Standards (Red Book)
- Publishes Practice Advisories
- Professional Publications
- Certifications
 - Certified Internal Auditor
 - Certified Govt Auditing Professional
 - Certified Financial Services Auditor



Internal Audit Process Framework

- Infrastructure
- Enterprise Risk Assessment
- Business Unit Risk
- Internal Audit Execution



IA Process - Infrastructure

- **Audit Startup and Infrastructure Development**
 - **Audit Committee Charter**
 - **Audit Department Charter**
 - **Budget**
 - **Department Staffing**
 - **Departmental Policies and Procedures**



IA Process – Enterprise Risk Assessment

- Audit Universe Identification
- Application of Audit Universe Risk Model
- Audit Universe Risk Ranking
- Audit Plan Development
 - *Multi-year*
 - *Requires Audit Committee Approval*



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IA Process – Business Unit Risk Assessment

- Entity Level Information Gathering
- Entity Risk & Control Assessment
- Audit Program Development



IA Process – IA Function Execution

- Audit Program Execution
- Audit Report Development
 - Risk
 - Findings / Recommendations
 - Management Comments
- Follow-up Activities



IA Process – Infrastructure (2)

- **Board Reporting**
 - **Open Communications**
 - **Update Audit Activities / Budget / Audit Plan**
 - **Update Enterprise Risk Assessment**
 - **Share Concerns**



Internal Audit Process

- 1. Audit Startup and Infrastructure Development - *Infrastructure***
- 2. Audit Universe Identification – *Enterprise Risk Assessment***
- 3. Application of Audit Universe Risk Model – *Enterprise Risk Assessment***
- 4. Audit Universe Risk Ranking – *Enterprise Risk Assessment***
- 5. Audit Plan Development – *Enterprise Risk Assessment***
- 6. Entity Level Information Gathering – *Business Unit Risk Assessment***
- 7. Entity Risk & Control Assessment – *Business Unit Risk Assessment***
- 8. Audit Program Development – *Business Unit Risk Assessment***
- 9. Audit Program Execution – *Internal Audit Function Execution***
- 10. Audit Report Development – *Internal Audit Function Execution***
- 11. Follow-up Activities – *Internal Audit Function Execution***
- 12. Board Reporting - *Infrastructure***



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Quality Assurance Review

- An external quality assessment evaluates conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*, the internal audit and audit committee charters, the organization's risk and control assessment, and the use of successful practices. An internal audit activity must obtain an external assessment every five years to be in conformance with the *Standards*.



Fraud

- Internal auditors support management's efforts to establish a culture that embraces ethics, honesty, and integrity. They assist management with the evaluation of internal controls used to detect or mitigate fraud, evaluate the organization's assessment of fraud risk, and are involved in any fraud investigations. *IIA Professional Standards*



Internal Audit's Role in Fraud

- **Prevention**
 - Implementation of Appropriate Controls
 - Performing a Fraud Risk Assessment
- **Detection**
 - Process Built into Every Internal Audit
- **Investigation**
 - Involved Along with Legal and Outside Organizations



Fraud

- Association of Certified Fraud Examiners
www.acfe.com
- *Managing the Business Risk of Fraud: A Practical Guide* - Joint Effort of IIA, AICPA, & ACFE
<http://fvs.aicpa.org/Resources/Antifraud+Forensic+Accounting/Managing+the+Business+Risk+of+Fraud.htm>
- *ACFE Report to the Nation* – ACFE
<http://www.acfe.com/resources/publications.asp?copy=rtn>
- Fraud Prevention Check-up
<http://www.acfe.com/resources/publications.asp?copy=fraudprevention>



Consulting

- **Improve Efficiency and Effectiveness of Business Processes**
- **Recommend Best Practices Where Applicable**
- **Participate on Steering Committees When Appropriate but Without Decision Making Rights**



Q&A

- Questions
- Internal Audit Experiences



Internal Audit Resources

- Institute of Internal Auditors
www.theiia.org
- ISACA
www.isaca.org
- Assoc. Certified Fraud Examiners
www.acfe.com



Internal Audit Resources

- When the Boss Trumps Internal Controls
<http://www.journalofaccountancy.com/Issues/2006/Feb/WhenTheBossTrumpInternalControls.htm>
- More Than Words
<http://www.cfo.com/article.cfm/12344071?f=related>
- You Want to Get Rid of What?
<http://www.theiia.org/download.cfm?file=48099>



Internal Audit Resources

- Protiviti Resource Guides

<http://www.protiviti.com/portal/site/pro-us/menuitem.8b5ea5c82fb6ef61bb078e9ca7cebf a0/>

- ISACA – Top Business / IT Issues

<http://www.isaca.org/TemplateRedirect.cfm?template=/ContentManagement/ContentDisplay.cfm&ContentID=44065>



Internal Audit Resources

- AuditNet

www.auditnet.org

- Dan Swanson's Resource Email List - Leading resources covering subjects such governance, leadership, risk management, compliance, control, internal audit, IT security, project mgmt, and numerous others.

http://ca.groups.yahoo.com/group/DansResource_EmailList/



Contact Information

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