



cutting through complexity

## Collaboration of Internal Auditors and External Auditors with the Audit Committee

Herman Van Impe



### Agenda

#### Roles and responsibilities

- The Three Lines of Defense Model
- Internal and External Auditors
- The Audit Committee

#### Integrating Internal and External Audit

- Rationale
- ISA 610: Using the Work of Internal Auditors
- Pros and Cons

#### Collaboration in practice

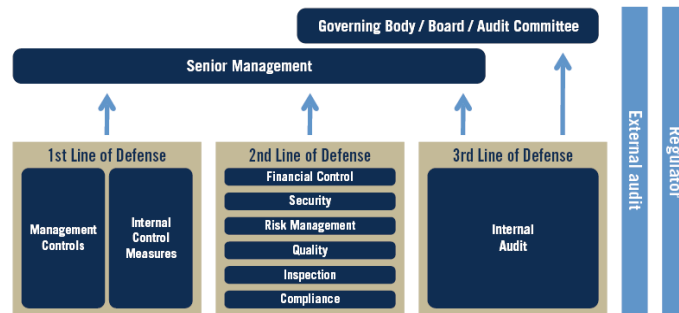
#### Best practices for integrating audit tasks

- Cooperation between IA & EA
- Crucial Role of the Audit Committee

## Roles and Responsibilities : The Three Lines of Defense Model

- **First line of defense:** business operations –risk and control in the business
- **Second line of defense:** the oversight functions
- **Third line of defense:** independent assurance providers – internal audit and other independent assurance providers

### The Three Lines of Defense Model



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2

## Roles and Responsibilities : Internal & External Auditors (1)

*An Auditor is an Auditor... right?  
Well, not really.*

### What Auditors do share:

- An important role in the governance of an organization
- The talent to spot signals of inefficiency and ineffectiveness
- A keen eye for deciphering what is wrong
- Courage to address sensitive issues
- Uncompromising integrity and ethics

**Yet, Internal and External Auditing are distinct functions, that have numerous differences.**

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3

## Roles and Responsibilities : Internal & External Auditors (2)

	Internal Auditor	External Auditor
Reason	Driven by management's desire to have an internal, value-adding resource that focusses attention on organizational processes and ensures accuracy, efficiency, and effectiveness of operations	External regulatory requirement for an independent certification that the financial statements, provided to stockholders and the financial community, is true and fair
Standards	IIA's <i>International Standards for the Professional Practice of Internal Auditing</i>	PCAOB's <i>Auditing Standards</i>
Approach	Customizes approach to best meet individual assignment objectives	Generally follows an approach based on prior work
Independence	Objectivity and independence in work approach, but not independent of the organization	Independent of the organization
Results	Identifies problems, makes recommendations, and helps facilitate resolutions	Meets statutory requirements and provides necessary adjustments to meet financial accuracy
Follow-up	Follows through to ensure work is sufficient to achieve problem resolution	Limits follow-up primarily to financial areas

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4

## Roles and Responsibilities : the Audit Committee

- Compulsory for all listed companies and financial institutions since 2008
- Entirely composed of non-executive members of the Board of Directors
- Supervise the financial reporting process
- Monitor the effectiveness of the internal control and risk management systems
- Monitor internal audit, if applicable, and its effectiveness
- Monitor statutory audit including follow-up of questions and recommendations
- Monitor the independence of statutory audit
- Report regularly to the Board of Directors
- Take a strategic view of policies regarding internal and external audit work
- Be diligent about its governance role
- Ensure overall coordination of internal and external audit work (CAE)

**The Audit Committee is therefore a consultative organ, monitoring that what has to do with control, in the broadest sense**

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5

## Integrating IA and EA: Rationale

### IIA Standard 2050 – Coordination

*The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.*

### Why integrate?

According to Sawyer's *Internal Auditing: The Practice of Modern Internal Auditing*, 4<sup>th</sup> Edition by Lawrence B. Sawyer, J.D., CIA, PA, and Mortimer A. Dittenhofer, Ph.D., CIA,:

*Coordination between external and internal auditors is important because it increases the economy, efficiency, and effectiveness of the total audit activity for the enterprise. Neither form of auditing can replace the other. But in many ways, they impinge on each other. And if the two audits are uncoordinated, there will be overlaps and duplication that unnecessarily increase audit costs.*

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6

## Integrating IA and EA: ISA 610: Using the Work of Internal Auditors

The External Auditor is the sole responsible for the opinion he expresses on the financial statements, which implies that his audit scope must cover all relevant aspects of the account, regardless of the fact whether he is able to rely on work of the Internal Auditors. This also means that the External auditor assumes full responsibility for all internal audit work on which he has been relying.

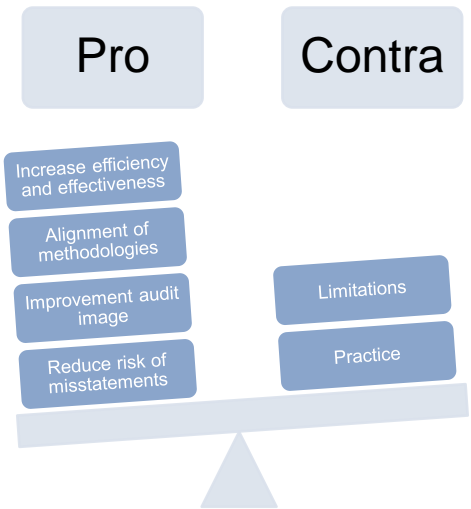
The External Auditor, if relying on Internal Audit, will therefore need to decide on

- The degree of independence of the internal audit function within the entity's organization
- The technical competence of its staff
- The extent of the scope of their work
- The professional care for the planning and execution of the work (including quality control)

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7

Integrating IA and EA: Pros and Cons

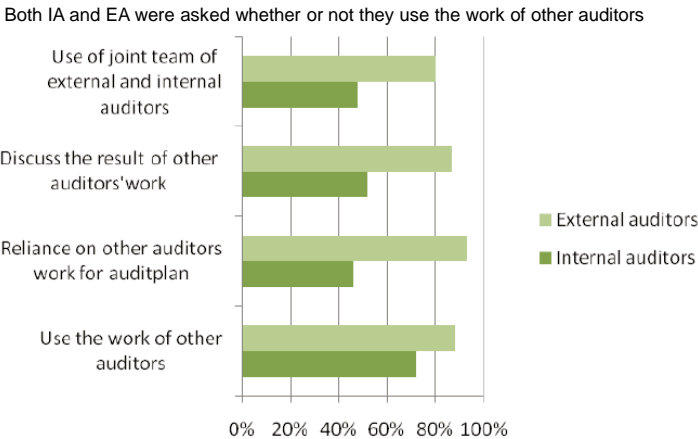


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8

Collaboration in practice (1)

Survey and interviews conducted amongst internal and external Auditors in the beginning of 2009

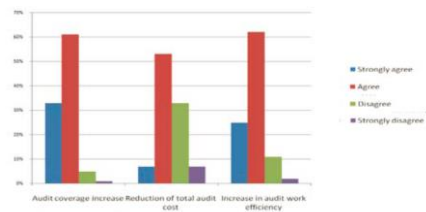


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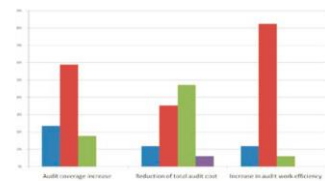
9

Collaboration in practice (2)

Internal Auditors were asked to assess the following benefits of a good cooperation with the External Auditors and the figures below are expressed in % of answers:



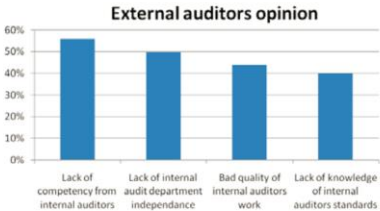
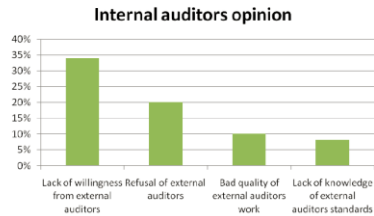
External Auditors were asked if they consider the following benefits of a good cooperation with the Internal Auditors and the figures below are expressed in % of answers:



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Collaboration in practice (3)

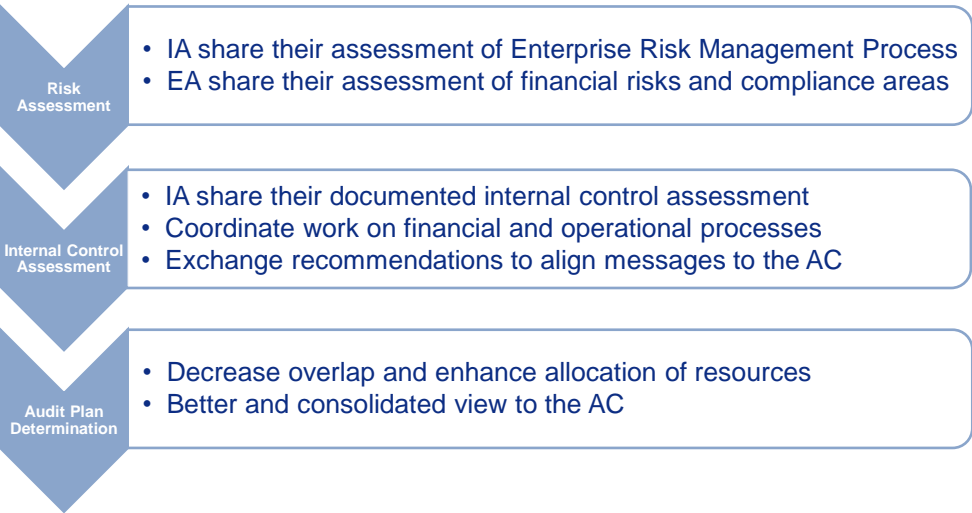
Why would you not use the work of the other profession?



Still room for improvement

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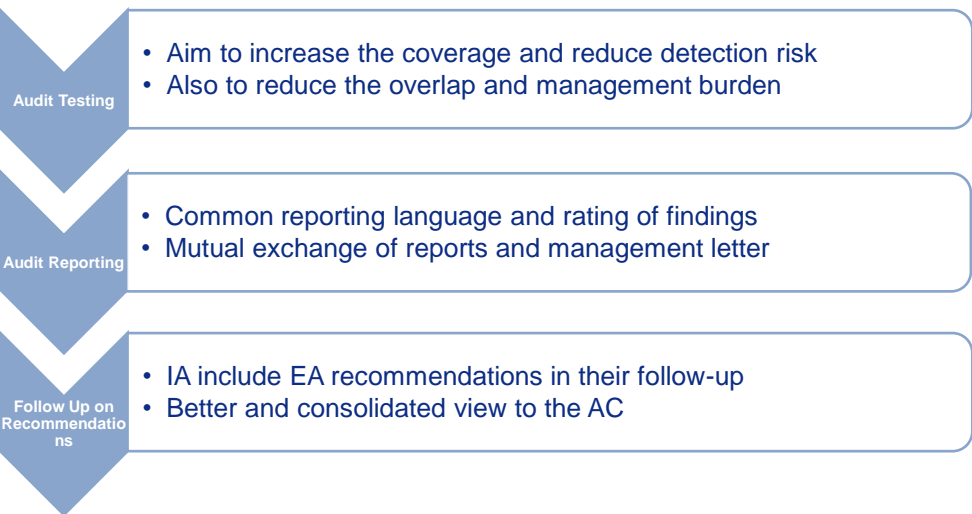
Best practices for integrating audit tasks: cooperation between IA & EA (1)



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12

Best practices for integrating audit tasks: cooperation between IA & EA (2)



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13

## Best Practices for integrating audit tasks: Crucial Role of the Audit Committee

- It is recommended for the Audit Committee to pro-actively encourage the collaboration between Internal and External Audit to improve the effectiveness and quality of the control.
- Planning arrangements for the actual cooperation should be left to both auditors who should submit their suggestions to the Audit Committee.
- The Audit Committee should act as the principal point of contact for the Internal and External Auditors.
- The Audit Committee should review and evaluate the work of both Auditors.

## Thank you

Presentation by Herman van Impe

