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What is internal audit?

Chartered Institute of Internal Auditors

The role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.

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What is its value to the organisation?
The difference between internal and external audit
Our members

What do internal auditors do?

We have a professional duty to provide an unbiased and objective view. We must be independent from the operations we evaluate and report to the highest level in an organisation: senior managers and governors. Typically this is the board of directors or the board of trustees, the accounting officer or the audit committee.

To be effective, the internal audit activity must have **qualified**, skilled and experienced people who can work in accordance with the **Code of Ethics** and the **International Standards**.

The nature of internal auditing, its role within the organisation and the requirements for professional practice are contained within the **International Professional Practices Framework (IPPF)**. The components and the detailed content of the IPPF are available in the **Global professional guidance** area of the website.

Internal auditors can be engaged in a range of activities which are detailed below. You can also download the below content in our brochure: [What is internal audit? \(pdf\)](#)

Assessing the management of risk
Assisting management in the improvement of internal controls
Why is internal audit important to your organisation?
Activities of internal audit
Evaluating controls and advising managers at all levels
Evaluating risks
Analysing operations and confirm information
Working with other assurance providers

What is its value to the organisation?

Internal auditors deal with issues that are fundamentally important to the survival and prosperity of any organisation. Unlike external auditors, they look beyond financial risks and statements to consider wider issues such as the organisation's reputation, growth, its impact on the environment and the way it treats its employees.

In sum, internal auditors help organisations to succeed. We do this through a combination of assurance and consulting. The assurance part of our work involves telling managers and governors how well the systems and processes designed to keep the organisation on track are working. Then, we offer consulting help to improve those systems and processes where necessary.

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The difference between internal and external audit

While sharing some characteristics, internal and external audit have very different objectives. These are explained in the table below:

	External audit	Internal audit
Reports to	shareholders or members who are outside the	The board and senior management who are within the organisations governance

	organisations governance structure.	structure.
Objectives	Add credibility and reliability to financial reports from the organisation to its stakeholders by giving opinion on the report	Evaluate and improve the effectiveness of governance, risk management and control processes. This provides members of the boards and senior management with assurance that helps them fulfil their duties to the organisation and its stakeholders.
Coverage	Financial reports, financial reporting risks.	All categories of risk, their management, including reporting on them.
Responsibility for improvement	None, however there is a duty to report problems.	Improvement is fundamental to the purpose of internal auditing. But it is done by advising, coaching and facilitating in order to not undermine the responsibility of management.

Our members

Internal auditors have to be independent people who are willing to stand up and be counted. Their employers value them because they provide an independent, objective and constructive view. To do this, they need a remarkably varied mix of skills and knowledge. They might be advising the project team running a difficult change programme one day, or investigating a complex overseas fraud the next.

From very early on in their careers, they talk to executives at the very top of the organisation about complex, strategic issues, which is one of the most challenging and rewarding parts of their role.

Fiona Warren - Internal Auditor, Leicestershire Partnership NHS Trust:

'It is a very sociable career and I get to meet new people on a daily basis, who work at all levels, right from Executive Directors to the Managers and frontline staff. It is also immensely rewarding to go back and follow up my work after a year or so and see how my efforts have not only resulted in quantitative improvements, but also been accepted by the relevant people in charge.'

Assessing the management of risk

The profession of internal audit is fundamentally concerned with evaluating an organisation's management of risk. All organisations face risks. For example, risks to the organisation's reputation if it treats customers incorrectly, health and safety risks, risks of supplier failure, risks associated with market failure, cyber security and financial risks to name some key areas. The key to an organisation's success is to manage those risks effectively - more effectively than competitors and as effectively as stakeholders demand.

To evaluate how well risks are being managed the internal auditor will assess the quality of risk management processes, systems of internal control and corporate governance processes, across all parts of an organisation and report this directly and independently to the most senior level of

executive management and to the board's audit committee.

Assisting management in the improvement of internal controls

An internal auditor's knowledge of the management of risk also enables him or her to act as a consultant providing advice and acting as a catalyst for improvement in an organisation's practices.

So, for example if a line manager is concerned about a particular area of responsibility, working with the internal auditor could help to identify improvements. Or perhaps a major new project is being undertaken – the internal auditor can help to ensure that project risks are clearly identified and assessed with action taken to manage them.

Why is internal audit important to your organisation?

By reporting to executive management that important risks have been evaluated and highlighting where improvements are necessary, the internal auditor helps executive management and boards to demonstrate that they are managing the organisation effectively on behalf of their stakeholders. This is summarised in the mission statement of internal audit which says that internal audit's role is 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'.

Hence, internal auditors, along with executive management, non-executive management and the external auditors are a critical part of the top level governance of any organisation.

Activities of internal audit

Below are the key things an internal auditor does. Within these areas, it is important to think of the internal auditor as the organisations critical friend – someone who can challenge current practice, champion best practice and be a catalyst for improvement, so that the organisation as a whole achieves its strategic objectives.

Evaluating controls and advising managers at all levels

Internal audit's role in evaluating the management of risk is wide ranging because everyone from the mailroom to the boardroom is involved in internal control. The internal auditor's work includes assessing the tone and risk management culture of the organisation at one level through to evaluating and reporting on the effectiveness of the implementation of management policies at another.

Evaluating risks

It is management's job to identify the risks facing the organisation and to understand how they will impact the delivery of objectives if they are not managed effectively. Managers need to understand how much risk the organisation is willing to live with and implement controls and other safeguards

to ensure these limits are not exceeded. Some organisations will have a higher appetite for risk arising from changing trends and business/economic conditions. The techniques of internal auditing have therefore changed from a reactive and control based form to a more proactive and risk based approach. This enables the internal auditor to anticipate possible future concerns and opportunities providing assurance, advice and insight where it is most needed.

Analysing operations and confirm information

Achieving objectives and managing valuable organisational resources requires systems, processes and people. Internal auditors work closely with line managers to review operations then report their findings. The internal auditor must be well versed in the strategic objectives of their organisation and the sector in which it operates in, so that they have a clear understanding of how the operations of any given part of the organisation fit into the bigger picture.

Working with other assurance providers

Providing assurance to executive management and the board's audit committee that risks are being managed effectively is not the exclusive domain of internal audit. There are likely to be other assurance providers who perform a similar role. This can include risk management professionals, compliance officers, fraud investigators, quality managers and security experts to name just a few. The difference between these assurance sources and internal auditors is that internal audit are independent from management operations and are able to give objective and unbiased opinions about the way risks are reported and managed. Internal audit's independence of executive managements is achieved through its functional reporting line to the chair of the audit committee and an administrative reporting line to the chief executive, as the most senior executive.

The interesting aspect within this structure is that internal auditors can work constructively with other assurance providers to make sure the board's audit committee receives all the assurance they need to form an opinion about how well the organisation is managing its risks. It also means that the available assurance resources are optimised by avoiding duplication and gaps in the provision of assurance. Teamwork and developing effective working relationships is a key feature of internal auditing.

But like all professions, internal audit has its own skills and its own qualifications, technical standards and codes of practice.

These are all provided through the internal audit professional body – the Chartered Institute of Internal Auditors. As an affiliate member of the global Institute of Internal Auditors, the Chartered Institute of Internal Auditors promotes the International Professional Practices Framework (IPPF) in the UK and Ireland, so that internal auditors here around the world work towards a globally agreed set of core principles and standards.

Whilst the financial skills of accountants are very useful, to do their job effectively, internal auditors must possess a high level of technical internal auditing skills and knowledge. They must also be effective communicators, good project managers, analytically strong and good negotiators.