



Internal audit scope

Audit Committee Questions
Audit Committee Institute

The role that internal audit can play within an organisation can be significant and of high value to the audit committee. The scope does not need to be limited to providing the audit committee with assurance over the controls implemented by management and can head towards a 'consultancy' role, providing strategic support to the audit committee and company. Establishing the 'right' scope for the internal audit function is not a 'one size fits all' exercise.

**Balance between
assurance and
consultancy**

**Involvement in
setting the scope**

**Maturity of
the controls
environment**

**Assurance
currently provided
by internal audit**

Audit committee oversight essentials ...

The audit committee should be involved in developing internal audit's remit, goals and mission to be certain of its proper role in the oversight function. A clearly defined and communicated remit helps to remove unnecessary duplication of effort and ensure the audit teams and expertise are focused and the investment in internal audit is maximised. Collaboration with management and internal audit in developing the scope of the internal audit function will help ensure an appropriate balance between the assessment of internal control and any responsibilities for operational efficiency, risk management and other special projects.

Though risk based, the scope of internal audit's work should rarely be static from one year to the next. The audit committee should play a role in reviewing the scope on a regular basis to ensure that this is being updated appropriately, in line with changes in the organisation's activities, markets or other aspects of the external environment which may have an impact on the risks faced by the organisation.

Getting the right balance between assurance and value creation audit can be difficult. In a business that has an immature control environment, or is experiencing significant change or growth, value is often demonstrated by giving high quality assurance over the effectiveness of core controls. This helps to mitigate the risk of control failures and associated financial surprises. Newly established internal audit functions are also more likely to be focused on assessing the effectiveness of the 'basic' processes and controls.

Where there is a strong control environment, experienced teams and mature risk management processes, internal audit can do less basic assurance work and play a greater role working alongside management in a business partnering role.

This type of role requires careful management to ensure the responsibilities of the business and the independence of internal audit do not become blurred.

Key questions for audit committees to consider:

Balance between assurance and consultancy

- What is the current state of the controls environment? Is this considered sufficiently mature such that it does not require all of internal audit's focus?
- What is the current state of the company's risk management process?
- What is the process for prioritising the efforts of internal audit? Is internal audit staffing adequate to take on additional roles? Will this cause delays in controls responsibilities?
- Is there room for internal audit to play an internal 'consultancy' role? How will internal audit independence be maintained if this was added to their scope?
- Is the business undergoing significant change in its operations, or changes in external risks?

Maturity of the controls environment

- What is internal audit's view of the controls environment?
- To what extent can the internal audit plan be relied upon to detect significant errors, irregularities, and material weaknesses in internal control?
- Have any control deficiencies been reported? Have there been any significant recommendations for management regarding improvements in controls? Have these been actioned?
- Are there other forms of assurance over the control environment, ie, self-assessment?

Involvement in setting the scope

- Does internal audit have clearly defined terms of reference that articulate the scope of its work?
- Is the internal audit's charter regularly reviewed to ensure it remains appropriate?
- What is the audit committee's involvement in setting the scope of the internal audit plan? Is this limited to approval of suggested plans or does the audit committee have a role in setting the plans?
- What is management's role in setting the scope of the internal audit plan? Does internal audit support management in the assessment of internal control over financial reporting? Is there room for internal to perform additional assurance of benefit to management and the audit committee?
- What criteria are used to set the annual and long-term internal audit plans? Are these integrated with the risk management programme?
- Is the internal audit plan coordinated with the external auditor?
- How does internal audit react to changes in the business environment?

Assurance currently provided by internal audit

- What is the current scope of internal audit? Is the level of assurance provided appropriate?
- Does internal audit provide assurance over compliance with laws and regulations? Have there been any incidents of non-compliance identified?
- What is internal audit's role in providing assurance over compliance with policies and procedures? Have there been any cases of non-compliance?
- Does internal audit's role extend to assessing the effectiveness of policies and procedures and / or the controls environment?
- Does internal audit assess how the company responds to new risks?

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