

Key questions for audit committees to ask about Internal Audit





Introduction

An effective relationship between the audit committee and internal auditors is fundamental to the success of the Internal Audit function. It has become increasingly important for audit committees to assess whether internal auditors are monitoring critical controls and identifying and addressing emerging risks.

Internal Audit will be more successful if the chief audit executive (CAE) understands the expectations of the audit committee and management and if expectations are aligned. In order for organizations to help maintain the quality of internal audit activities expected by the board, audit committees must periodically assess whether Internal Audit is performing the appropriate activities; has adequate resources; and is proactively identifying risks, monitoring critical controls, and helping address emerging risks. The attached questionnaire is designed to assist audit committees in their evaluation of Internal Audit and the CAE.

To assist in assessing Internal Audit's effectiveness, audit committees should also consider engaging an experienced external party to perform a strategic assessment of Internal Audit. A strategic assessment primarily focuses on optimizing Internal Audit to bring the most value to the company and the audit committee. It also can help the audit committee answer tough questions about Internal Audit's performance and practices, help align internal audit activities with the organization's strategic objectives and priorities, and further advance the value Internal Audit provides to the organization.

Maintaining an effective relationship with the audit committee is a key element of success for Internal Audit. By performing a periodic assessment, audit committees can more effectively communicate their expectations of Internal Audit, help align those expectations with other key stakeholders, and support the CAE in assessing the function's ability to meet expectations.

Key questions for audit committees to ask about Internal Audit

1. Does Internal Audit have a clearly articulated strategy that is reviewed periodically and approved by the audit committee?
2. Does Internal Audit have a clear set of performance expectations that are aligned with the success measures of the audit committee, and that are measured and reported to the audit committee?
3. Is Internal Audit appropriately funded and staffed? Is Internal Audit staffed with the appropriate mix of professionals to achieve its objectives? For example, CPAs with prior public accounting experience, industry experience, IT specialists, etc.
4. Does Internal Audit have a charter that is periodically reviewed and approved by the audit committee?
5. Does Internal Audit operate in accordance with its charter?
6. Is Internal Audit sufficiently independent of management?
7. Does Internal Audit organize or perform peer reviews or self-assessments of its performance and report the results to the Audit Committee?
8. Is the level of assurance provided by Internal Audit and interaction with other assurance sources clear and appropriate for the audit committee?
9. Does Internal Audit meet regularly with the external auditors to discuss risk assessments, scope of procedures, or opportunities to achieve greater efficiencies and effectiveness across the company's audit services?
10. Is the Internal Audit plan aligned to the key risks of the organization and other assurance activities? Is Internal Audit's risk assessment process appropriately linked to the company's Enterprise Risk Management activities?
11. Are issues identified and reported by Internal Audit appropriately highlighted to the audit committee, and is their progress to effective completed management actions tracked and reported?
12. In delivering the annual internal audit plan, is Internal Audit flexible and dynamic in promptly addressing new risks and the needs of the audit committee?
13. Is the work of Internal Audit timely and proactive in the conduct and reporting of issues and addressing them with management?
14. Are reports and other communications from Internal Audit to the audit committee of an appropriate standard of presentation and value provided?
15. Is the CAE respected as an advisor to the audit committee and management on emerging risks of the organization?
16. Is Internal Audit highly regarded and respected within the organization?

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