Internal Audit
What is it & why we need it?

The accounting scandals that hit corporate America in the last few years have raised many questions about the ability of external audits alone to discover fraud and irregularities, and whether having stronger internal audit activities could have saved the concerned companies from collapsing.

What is internal audit?

The Institute of Internal Auditors defines Internal Audit as follows:

“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”.

What is internal control?

COSO definition of internal control is as follows:

“Internal control is a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Who needs internal audit?

The law in many countries requires publicly - owned companies to have internal audit activity. Many privately - owned companies have opted to start internal audit activities because of the benefits derived from it as discussed below.
Why should a company have internal audit activity?

- The expertise and knowledge of internal auditors can help in the following areas:
  - Assess the effectiveness of the design and execution of the system of internal control and risk management.
  - Assist management in the effective discharge of their duties.
  - Evaluate compliance with laws and regulations.
  - Evaluate the reliability and integrity of financial and operational information.
  - Provide recommendation for the improvement of operations.
  - Help in safeguarding company assets and utilization of its resources.

- Internal audit reduces the exposure to unpleasant surprises.

- Having an internal audit activity is a good corporate governance practice.

- And let’s always remember that the cost of preventive actions is much less than those of corrective actions.

What is the difference between external and internal audits?

External audit is aimed at providing reasonable assurance that the company’s financial statements are prepared in conformity with accepted accounting standards. External auditors are independent third party and they provide their opinion based on examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

Internal audit goes beyond financial statements presentation assurance and focuses on evaluating the effectiveness and efficiency of internal control to ensure that company objectives are met. Internal auditors are employees of the company, but maintain high level of independence and objectivity.

Coordination between internal and external auditors is essential for the success of such audits. External auditors in many cases rely on the work of internal auditors in performing their duties. This results in reduction of their time and fees.

How we can help?
We can help in many ways including:

- Establishing internal audit activity from scratch. This would include, among other things, the drafting of the internal audit charter, the preparation of the audit manual & policies and procedures and recruitment and training of auditors.
- Outsourced and co-sourced risk-based internal audit services.
- Performance review of the operation of the internal audit activity.
- Training of internal auditors.
- Internal and external reviews as stipulated by the standards of the Institute of Internal Auditors.