

Internal Audit FAQ

What is auditing?

- There are two broad areas in which audits occur – financial and performance (performance includes IT auditors).
- Audit topics fall into the categories of financial, performance, compliance and investigatory.
- Auditors can be internal or external.

Internal Auditors:

- Are employees of the agency being audited.
- Are independent from the activities they audit.
- Are usually responsible for auditing one organization or agency.
- Provide ongoing monitoring following an audit.
- Serve agency management and governing boards.

External Auditors:

- Are employees of an outside organization.
- Are independent from the agency they audit.
- Are responsible for auditing multiple organizations or agencies.
- Provide intermittent audits.
- Serve elected officials, the public and audited agencies.

Why do agency directors need to know about internal audit and how it functions?

Oregon Administrative Rule (OAR) 125-700-0125 requires an internal audit function for agencies that meet one of the following criteria:

- Biennial expenditures exceed \$100 million.
- Number of full time equivalent (FTE) employees exceeds 400.
- Dollar value of cash items processed annually exceeds \$10 million.

Internal audits may:

- Identify potential challenges before they become burning issues.
- Identify failure points within a process so corrective action can be taken.
- Determine the effectiveness of controls.

Executive leaders who have real-time knowledge and understanding of agency risks are able to address areas of concern in a timely and effective manner.

What are the components of a strong internal audit function?

- A governance structure consisting of the Chief Audit Executive (CAE), audit committee and executive management.
- A reporting structure where the CAE reports administratively to the agency director or deputy director and reports functionally to the audit committee. This assists in maintaining auditor independence.
- The responsibilities of the CAE, audit committee, and management should be formally documented in the agency's internal audit and audit committee charters.
- The audit committee should include members from another agency or outside of state government.
- Internal auditors follow the professional standards and code of ethics of the Red Book or Yellow Book. Refer to the definitions section for more information on these guides.

What are the benefits of internal audits?

- Helping to identify and prioritize risks to agency missions and goals.
- Evaluating agency governance, programs and operations.
- Assessing the adequacy of, and compliance with, the internal control framework (such as policies and procedures) that guides agency operations.
- Making recommendations for strengthening internal controls and preventing/detecting fraud.
- Consulting (formally and informally) with agency managers and staff on best practices, process improvement and other topics as needed.
- Identifying opportunities and making recommendations to implement best practices that reduce vulnerabilities and inefficiencies.

Benefits cont'd.

- Serving as a liaison and advisor with external auditors, such as Secretary of State auditors and federal auditors.

What questions should agency directors ask to increase knowledge of the internal audit function?

- What is the composition of the agency's audit committee and how are members recruited, selected and appointed?
- How is independence from agency management maintained?
- What standards are the agency following and when was the last quality assurance review?
- Do agency auditors have a specialization (such as performance, financial or IT)?
- Do agency auditors have professional certifications?
- How are audit topics selected?
- How do agency auditors liaise with external auditors?

Definitions

Assurance Services: Impartial examinations of evidence for the purpose of providing an independent assessment, which are part of a formal audit. The objective of assurance engagements is to determine whether the agency's network of risk management, control and governance processes is adequate and functioning.

Audit Committee: A group that provides oversight of an agency's auditing and internal control and helps ensure independence of the internal audit function. The purpose of the audit committee is to assist management in carrying out its oversight responsibilities. Typically, an audit committee charter outlines the roles and duties of the committee and its members.

CAE Council: A collaborative statewide group that contributes to DAS' ability to coordinate internal audit activities within state government. The council strives to enhance the internal audit role and effect on governance, risk management and control activities within state government.

Chief Audit Executive: The top position within an agency that manages internal audit activities according to the internal audit charter and auditing standards. The CAE has responsibility for the overall quality assurance of audit activities, reports on audit activities to senior management and the board (if one exists), and follow-up on engagement results.

Consulting Services: Impartial examinations that are advisory and may include other services such as counseling, advising, facilitating, training and participating in standing or temporary management committees of project teams. The objective of counseling engagements is to add value in the development or modification of agency processes, policies, procedures and controls to minimize risk and achieve agency and program objectives.

Internal Audit: Internal audit is the function that provides the agency independent, objective assurance and consulting services designed to add value and improve operations. Internal audit facilitates oversight, accountability, and transparency and helps the agency accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and control processes.

Red Book: From the Institute of Internal Auditors– International Standards for the Professional Practice of Internal Auditing.

Yellow Book: From the U.S. Government Accountability Office – Generally Accepted Government Auditing Standards.

For additional information contact:

Lisa Upshaw
Chief Audit Executive
Department of Administrative Services
Lisa.Upshaw@oregon.gov
503-378-3076