

Internal Audit FAQs

What is auditing?

- There are two broad areas in which agency auditors' audit – financial and performance (including 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/agency.
- Provide ongoing monitoring.
- Their primary customers are 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/agencies.
- Provide intermittent audits.
- Their primary customers are elected officials, the public, and audited agencies.

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

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

- Biennial expenditures exceed \$200,000,000.
- Number of full time equivalent (FTE) employees exceeds 400.
- Dollar value of cash items processed annual exceeds \$20,000,000.
- Agencies that are being funded over 50% from accounts in "other funds" and/or "federal funds".

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 external members from another agency or outside of state government.
- Internal auditors follow professional standards. Currently state agencies follow either the Red or Yellow Book. Both standards contain a code of ethics.

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, policies and procedures (as part of the internal control framework) that guide 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.
- Serving as a liaison and advisor with external auditors, such as the 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 being followed 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: Objective 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: Members that provide oversight of auditing and internal control for the agency and help ensure independence of the internal audit function. The purpose of the audit committee is to assist management in carrying out its oversight responsibilities. Typically there is an audit committee charter that outlines roles and duties of the committee and its members.

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

Chief Audit Executive: The CAE is 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 to senior management and the board (if one exists) regarding internal audit activities, and follows up on engagement results.

Consulting Services: Objective examinations that are advisory and may include other services such as counseling, advising, facilitating, training, and participating on 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 department 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 an organization's 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 (IIA) – International Standards for the Professional Practice of Internal Auditing.

Yellow Book: From the US Government Accountability Office – Generally Accepted Government Auditing Standards