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## **Role of Internal Audit in Corporate Environment**

With increasing attention to financial reporting - by legislators, regulators, security analysts, institutional investors, and others – **the role of internal auditors** has become more important and increasing day by day. Internal Audit is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the organization. It assists organization in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

The internal auditing process of identifying emerging principles, practices, and tools for the internal auditor's role in internal controls over financial reporting is defined in "international accounting framework" as Code of Corporate Governance (CCG). It may not precisely be understood. For a common understanding, it may be the process which is employed to run government state affairs encompassing entire spectrum of activities, they may be administrative, legal, religious, socio-political, economic or others.

Same in the business organizations governance is the process to ensure smooth operations in a transparent and cost effective manner. CCG is set of guidelines and principles for management to operate organization and these principles are based on legislation, international standards, best business practices and policies (e.g. new business system in our organization). It is governance process which leads the organization to overall growth, profitability, credibility and financial strength. Business growth and profitability is unimaginable and cannot even be dreamed of without there-being 'good governance' in place.

CCG requires an internal audit function as integral part of the organization and the primary responsibilities of the internal auditors should involve assisting the board of directors in carrying out its responsibilities as they relate to the organization's accounting policies, internal control, and financial reporting practices.

Internal auditors are expected to examine and evaluate the adequacy and effectiveness of the organization's systems of internal control and the quality of performance in carrying out assigned responsibilities. Internal auditing function is set of authorities and responsibilities of auditors.

## Mission

The mission of Internal Audit function is to provide independent, objective assurance and consulting services using a disciplined systematic approach to improve the effectiveness of risk management, control and governance processes and the integrity of the company's operations.

Analyze, examine, evaluate the organization's operations, for the purpose of mitigating risks, improving internal control, and improve the overall efficiency and effectiveness of all functions of organization.

## Authority of Internal Auditors

The auditors are authorized to have full, free, and unrestricted access to all company functions, records, property, and personnel. They have authority to conduct investigations into any matters within its scope of responsibility. It is empowered to:

- Oversee the work of external auditors.
- Resolve any disagreements between management and the external auditors regarding financial reporting.
- Pre-approve all auditing and non-audit services.
- Seek any information it requires from employees
- Meet with company officers, external auditors, or outside counsel, as necessary.

## Responsibilities of Internal Auditors

### • ***Consider an Annual Opinion on Internal Control***

Internal auditor is always the CEO and Board of Directors best source of assurance about internal control. The first step is to base the annual audit plan on the control model. This should not replace a risk-based audit plan. The organization's major risks should always be the primary driver of internal audit activities. The basic steps are:

1. Use the existing risk assessment process to identify the organization's major risks.
2. Identify audits and other assurance tests to address the risks.
3. Identify the Objectives and Components that will be covered in these audit tests, and to what extent each will be covered.
4. Based on this analysis, estimate the extent of coverage for each cell (e.g., heavy, moderate, light, none)

### • ***Consider Audits of Specific Financial Control Processes***

The audit department might want to do annual audits of specific processes that are central to financial reporting and disclosure.

- Consider the effectiveness of the company's internal control system.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and reports on significant findings and recommendations, together with management's responses.
- Review the effectiveness of the internal audit function.

In addition internal auditors perform vital role in two important areas:

- Corporate governance.
- Corporate control

### Corporate Governance

Internal auditor's role is to provide assurance that the company is in reasonable compliance with pertinent laws and regulations, IFRS, best practices and maintaining effective controls against employee's conflict of interest and fraud.

The specific steps in this process include:

- Reviewing corporate policies.
- Reviewing current/pending litigation.
- Reviewing significant cases of employee conflict of interest, misconduct, or fraud.

### CORPORATE CONTROL

The internal auditor's role for corporate control includes an understanding of the company's key financial reporting risk area and system of internal control.

"The scope of the internal audit encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities." The internal auditors:

- Review the reliability and integrity of financial and operating information.
- Review the systems established to ensure compliance with those policies, plans, procedures, laws, IFRS and regulations.
- Review the means of safeguarding assets.
- Review the cost effectiveness.
- Review operations or programs to ascertain whether results are consistent with established objectives and goals.

### Conclusion

The tasks, responsibilities, and goals internal auditing are closely intertwined in many ways. Certainly, as the magnitude of the "corporate accountability" issue increases, so does the significance of the internal auditing.

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