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# **CIA Part 1**

## **Essentials of Internal Auditing**

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**2019 Edition**  
**CIA**  
**Preparatory Program**

**Part 1**

**Essentials of Internal Auditing**

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## Editorial Notes

Throughout these materials, we have chosen particular language, spellings, structures and grammar in order to be consistent and comprehensible for all readers. HOCK study materials are used by candidates from countries throughout the world, and for many, English is a second language. We are aware that our choices may not always adhere to “formal” standards, but our efforts are focused on making the study process easy for all of our candidates. Nonetheless, we continue to welcome your meaningful corrections and ideas for creating better materials.

This material is designed exclusively to assist people in their exam preparation. No information in the material should be construed as authoritative business, accounting or consulting advice. Appropriate professionals should be consulted for such advice and consulting.

## Dear Future CIA:

Welcome to HOCK *international!* You have made a wonderful commitment to yourself and your profession by choosing to pursue this prestigious credential. The process of certification is an important one that demonstrates your skills, knowledge, and commitment to your work.

We are honored that you have chosen HOCK as your partner in this process. We know that this is a great responsibility, and it is our goal to make this process as efficient as possible for you. To do so, HOCK has developed the following tools for your use:

- **A Study Plan** that guides you, week by week, through the study process. You can also create a personalized study plan online to adapt the plan to fit your schedule. Your personalized plan can also be emailed to you at the beginning of each week.
- **The Textbook** that you are currently reading. This is your main study source and contains all of the information necessary to pass the exam. This textbook follows the exam contents and provides all necessary background information so that you don't need to purchase or read other books.
- **The Flash Cards** include short summaries of main topics, key formulas and concepts. You can use them to review whenever you have a few minutes, but don't want to take your textbook along.
- **ExamSuccess** contains original questions and questions from past exams that are relevant to the current syllabus. Answer explanations for the correct and incorrect answers are also included for each question.
- **A Mock Exam** enables you to make final preparations using questions that you have not seen before.
- **Teacher Support** via our online student forum, e-mail, and telephone throughout your studies to answer any questions that may arise.
- **Videos** using a multimedia learning platform that provide the same coverage as a live-taught course, teaching all of the main topics on the exam syllabus.

We understand the commitment that you have made to the exams, and we will match that commitment in our efforts to help you. Furthermore, we understand that your time is too valuable to study for an exam twice, so we will do everything possible to make sure that you pass the first time.

I wish you success in your studies, and if there is anything I can do to assist you, please contact me directly at [brian@hockinternational.com](mailto:brian@hockinternational.com).

Sincerely,

Brian Hock, CIA, CMA  
President and CEO

## Table of Contents

<b>Exam Introduction .....</b>	<b>1</b>
Box Styles Used in This Book	1
<b>Section I – Foundations of Internal Auditing .....</b>	<b>2</b>
A. The Purpose, Authority, and Responsibility of the IAA	9
B. The Internal Audit Charter	9
C. Assurance and Consulting Services	12
D. IIA Code of Ethics	14
<b>Section II – Independence and Objectivity .....</b>	<b>17</b>
A. Organizational Independence and Individual Objectivity	18
B and C. Impairments to Independence or Objectivity	22
D. Policies That Promote Objectivity	26
<b>Section III – Proficiency and Due Professional Care .....</b>	<b>27</b>
A and B. Proficiency (Standard 1210)	27
C. Due Professional Care (Standard 1220)	33
D. Competency Through Continuing Professional Development	35
<b>Section IV – Quality Assurance and Improvement Program .....</b>	<b>36</b>
A. The Requirements of the QAIP	37
B. Reporting the Results of the QAIP	42
C. Disclosure of Conformance or Nonconformance	43
<b>Section V – Governance, Risk Management, and Controls .....</b>	<b>45</b>
Three Lines of Defense Model	45
<b>A. Organizational Governance .....</b>	<b>47</b>
Cornerstones of Good Corporate Governance – The IIA Corporate Governance Model	47
The Board of Directors	48
Stakeholders and Corporate Governance	49
The Internal Auditor’s Role in Organizational Governance	51
<b>B. Organizational Culture.....</b>	<b>53</b>
<b>C. Ethics .....</b>	<b>55</b>
The Internal Auditor’s Role in Assessing Organizational Ethics	55
Ethics Advocates	57
Code of Conduct Policy	58
<b>D. Corporate Social Responsibility.....</b>	<b>59</b>

<b>E. Concepts of Risk and Risk Management .....</b>	<b>64</b>
Types of Risk	66
Risk Appetite, Risk Tolerance, and Risk Capacity	67
<b>F. Globally Accepted Risk Management Frameworks.....</b>	<b>82</b>
COSO Framework on Enterprise Risk Management	84
ISO 31000 Principles, Framework, and Process	89
<b>G. Examining the Effectiveness of Risk Management .....</b>	<b>93</b>
<b>H. Appropriateness of IAA’s Role in the Risk Management Process .....</b>	<b>96</b>
<b>I. Interpret Internal Control Concepts and Types of Controls .....</b>	<b>98</b>
Establishing the Control Process	102
Controls in the Accounting Transaction Cycles	107
<b>J: Globally Accepted Internal Control Frameworks .....</b>	<b>115</b>
The COSO Model	115
Alternative Control Frameworks	121
<b>K. Examine the Effectiveness and Efficiency of Internal Controls.....</b>	<b>123</b>
 <b>Section VI – Fraud Risks.....</b>	 <b>126</b>
A. Fraud Risks and Types of Fraud	126
B. Evaluating Potential for Occurrence of Fraud	129
C. Recommend Controls to Prevent and Detect Fraud	133
D. Forensic Auditing	135
 <b>Appendix A: Glossary .....</b>	 <b>137</b>
<b>Appendix B: Model Internal Audit Activity Charter .....</b>	<b>140</b>
<b>Appendix C: Practice Advisories for QAIP .....</b>	<b>144</b>
<b>Appendix D: Sample Code of Conduct.....</b>	<b>152</b>
<b>Appendix E: 40 Common Forms of Fraud.....</b>	<b>154</b>

## Exam Introduction

The CIA Part 1 exam, **Essentials of Internal Auditing**, is 150 minutes (2 hours and 30 minutes) long and consists of 125 multiple-choice questions.

The CIA Part 1 syllabus has six sections:

- **Section I:** Foundations of Internal Auditing (15%)
- **Section II:** Independence and Objectivity (15%)
- **Section III:** Proficiency and Due Professional Care (18%)
- **Section IV:** Quality Assurance and Improvement Program (7%)
- **Section V:** Governance, Risk Management, and Control (35%)
- **Section VI:** Fraud Risks (10%)

Additionally, the IIA syllabus refers to **proficient** and **basic** cognitive levels:

- **Proficient.** Candidates must exhibit thorough understanding and ability to apply concepts, processes, or procedures; analyze, evaluate, and make judgments based on criteria; and/or put elements or material together to formulate conclusions and recommendations.
- **Basic.** Candidates must retrieve relevant knowledge from memory and/or demonstrate basic comprehension of concepts or processes.

In preparing for the exam, candidates need to read the textbook and use the ExamSuccess software with questions from past exams. Many of the exam topics are very large; therefore, by studying past exam questions candidates can get a feeling for the manner and depth to which a topic is tested.

As a word of caution, you might notice that the terminology used in this book may be different than what you are familiar with from your workplace. Because internal auditing is an internal activity, there are no established or standardized terms that apply in every organization. Keep in mind that the terms used in this book are the terms that appear on the exams, so you should become accustomed to them.

### Box Styles Used in This Book

The following box styles used throughout this book indicate material quoted from various IIA sources. Minor changes may have been made to the formatting, but no changes have been made to the content.

**Content quoted from the IIA website appears in light grey boxes with an orange border.**<sup>1</sup>

**Content quoted from the *Standards* or *Implementation Guides* appears in yellow boxes.**

**Content quoted from *Practice Advisories* or *Implementation Guides* appears in orange boxes.**

**Note:** Quotes may not include the entire section or may include non-sequential sections.

<sup>1</sup> The website is <https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx#mandatory>.

## Section I – Foundations of Internal Auditing

The best place to start preparing for CIA Part 1 is by understanding the guidance for internal auditors and a company's internal audit activity (IAA). The IIA provides explanations and outlines of the different categories of guidance, so when it is appropriate, the IIA explanation and description of the various sources of guidance will be provided.

The main source of guidance is the International Professional Practices Framework (IPPF).

Within the IPPF there are the following sections:

- The Mission of Internal Audit
- Mandatory Guidance
- Recommend Guidance

As the names indicate, only mandatory guidance **must** be followed.

### **Standards & Guidance – International Professional Practices Framework (IPPF)®**

The International Professional Practices Framework (IPPF) is the conceptual framework that organizes authoritative guidance promulgated by The Institute of Internal Auditors. A trustworthy, global, guidance-setting body, The IIA provides internal audit professionals worldwide with authoritative guidance organized in the IPPF as mandatory guidance and recommended guidance.

#### **Mandatory Guidance**

Conformance with the principles set forth in mandatory guidance is required and essential for the professional practice of internal auditing. Mandatory guidance is developed following an established due diligence process, which includes a period of public exposure for stakeholder input. The mandatory elements of the IPPF are:

- Core Principles for the Professional Practice of Internal Auditing
- Definition of Internal Auditing
- Code of Ethics
- *International Standards for the Professional Practice of Internal Auditing (Standards)*

#### **Recommended Guidance**

Recommended guidance is endorsed by The IIA through a formal approval process. It describes practices for effective implementation of The IIA's Core Principles, Definition of Internal Auditing, Code of Ethics, and *Standards*. The recommended elements of the IPPF are:

- Implementation Guidance — assist internal auditors in applying the *Standards*.
- Supplemental Guidance (Practice Guides) — provide detailed processes and procedures for internal audit practitioners.

This graphic from the IIA website provides a visual representation of the IPPF, the Mission, the Mandatory Guidance, and the Recommended Guidance.



When you are presented with a question, look first in the Mandatory Guidance for an answer. If there is no answer in the Mandatory Guidance, look in the Recommended Guidance.

### The Mission of Internal Audit

The mission describes the goals of the internal audit activity within the organization and encompasses all of the remaining elements of the IPPF.

The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organization. Its place in the New IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission.

To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

**Exam Tip:** Memorize the Mission of Internal Audit.

## Mandatory Guidance

“Mandatory guidance” refers to standards and principles from the IIA that must be followed. “Mandatory” means that it is a requirement, not a suggestion. The four sources of mandatory guidance are:

- 1) Core Principles for the Professional Practice of Internal Auditing
- 2) Definition of Internal Auditing
- 3) Code of Ethics
- 4) *International Standards for the Professional Practice of Internal Auditing (Standards)*

The **Core Principles**, taken as a whole, articulate internal audit effectiveness. For an internal audit activity to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organization to organization, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit’s mission.

The **Definition of Internal Auditing** states the fundamental purpose, nature, and scope of internal auditing. The definition is:

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.

The **Code of Ethics** states the principles and expectations governing behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct and behavioral expectations rather than specific activities.

The **Standards** are principle-focused and provide a framework for performing and promoting internal auditing. The *Standards* are mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable for organizations and individuals.
- Interpretations, which clarify terms or concepts within the statements.
- Glossary Terms.

It is necessary to consider both Statements and Interpretations to understand and apply the *Standards* correctly. The *Standards* employs terms that have been given specific meanings included in the Glossary.

**Exam Tip:** Memorize the Definition of Internal Auditing.

## The Core Principles

There are ten Core Principles that provide guidance for the IAA:

- 1) Demonstrates integrity.
- 2) Demonstrates competence and due professional care.
- 3) Is objective and free from undue influence (independent).
- 4) Aligns with the strategies, objectives, and risks of the organization.
- 5) Is appropriately positioned and adequately resourced.
- 6) Demonstrates quality and continuous improvement.
- 7) Communicates effectively.
- 8) Provides risk-based assurance.
- 9) Is insightful, proactive, and future-focused.
- 10) Promotes organizational improvement.

**Exam Tip:** Memorize the ten core principles of internal auditing.

## Introduction to the Standards

The *Standards* provide a guide for the practice of internal auditing. Most of the Standards are tested on the CIA exam, but initially it is important just to understand the structure of the *Standards*. This text from the IIA is an excellent outline of the *Standards* and its objectives.

Internal auditing is conducted in diverse legal and cultural environments; for organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* is essential in meeting the responsibilities of internal auditors and the internal audit activity.

The purpose of the *Standards* is to:

1. Guide adherence with the mandatory elements of the International Professional Practices Framework.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing services.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

The *Standards* are principles-focused, mandatory requirements consisting of:

- **Statements** of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels.
- **Interpretations** clarifying terms or concepts within the *Standards*.

The *Standards*, together with the Code of Ethics, encompass all mandatory elements of the International Professional Practices Framework; therefore, conformance with the Code of Ethics and the *Standards* demonstrates conformance with all mandatory elements of the International Professional Practices Framework.

(continued)

The *Standards* employ terms as defined specifically in the Glossary. To understand and apply the *Standards* correctly, it is necessary to consider the specific meanings from the Glossary. Furthermore, the *Standards* use the word “must” to specify an unconditional requirement and the word “should” where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

The *Standards* comprise two main categories: Attribute and Performance Standards. **Attribute Standards** address the attributes of organizations and individuals performing internal auditing. **Performance Standards** describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Attribute and Performance Standards apply to all internal audit services.

**Implementation Standards** expand upon the Attribute and Performance Standards by providing the requirements applicable to assurance (.A) or consulting (.C) services.

**Assurance services** involve the internal auditor’s objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor. Generally, three parties are participants in assurance services: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter—the process owner, (2) the person or group making the assessment—the internal auditor, and (3) the person or group using the assessment—the user.

**Consulting services** are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice—the internal auditor, and (2) the person or group seeking and receiving the advice—the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

The *Standards* apply to individual internal auditors and the internal audit activity. All internal auditors are accountable for conforming with the standards related to individual objectivity, proficiency, and due professional care and the standards relevant to the performance of their job responsibilities. Chief audit executives are additionally accountable for the internal audit activity’s overall conformance with the *Standards*.

If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the *Standards*, conformance with all other parts of the *Standards* and appropriate disclosures are needed.

If the *Standards* are used in conjunction with requirements issued by other authoritative bodies, internal audit communications may also cite the use of other requirements, as appropriate. In such a case, if the internal audit activity indicates conformance with the *Standards* and inconsistencies exist between the *Standards* and other requirements, internal auditors and the internal audit activity must conform with the *Standards* and may conform with the other requirements if such requirements are more restrictive.

The review and development of the *Standards* is an ongoing process. The International Internal Audit Standards Board engages in extensive consultation and discussion before issuing the *Standards*. This includes worldwide solicitation for public comment through the exposure draft process. All exposure drafts are posted on The IIA’s website as well as being distributed to all IIA institutes.

**Note:** The IIA’s *Standards* Glossary is presented in Appendix A.

**Note:** Being familiar with the *Standards* is one of the best ways to prepare for the exam. The original text of the *Standards* is presented in the textbook where it is relevant.

## Types of Standards

### 1) Attribute Standards

Attribute Standards (1000–1300) are concerned with the characteristics of the organization and the parties performing the auditing activities. The **primary components** of the Attribute Standards are:

- **Purpose, Authority, and Responsibility (1000).** The purpose, authority, and responsibility of the IAA should be formally defined in the internal audit charter, consistent with the *Standards*, and approved by the board.
- **Independence and Objectivity (1100).** The IAA must be independent and the internal auditors must be objective in performing their work.
- **Proficiency and Due Professional Care (1200).** The engagement must be performed with proficiency and due professional care.
- **Quality Assurance and Improvement Program (1300).** The Chief Audit Executive (CAE, the head of the IAA) must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. This program includes periodic internal and external quality assessments and ongoing internal monitoring. Each part of the program must be designed to help the internal auditing activity add value and improve the organization's operations. Furthermore, the program must provide assurance that the internal audit activity conforms to the **Definition of Internal Auditing**, the *Standards*, and the **Code of Ethics**.

### 2) Performance Standards

Performance Standards (2000–2600) describe the internal audit activities and criteria against which the performance of these services can be evaluated. The **primary components** of the Performance Standards are:

- **Managing the Internal Audit Activity (2000).** The CAE must effectively manage the internal audit activity to ensure that it adds value to the organization.
- **Nature of Work (2100).** The internal audit activity must evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach.
- **Engagement Planning (2200).** Internal auditors must develop and record a plan for each engagement, including the scope, objectives, timing, and resource allocations.
- **Performing the Engagement (2300).** Internal auditors must identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives.
- **Communicating Results (2400).** Internal auditors must communicate the engagement results.
- **Monitoring Progress (2500).** The CAE must establish and maintain a system to monitor the disposition of results communicated to management.
- **Resolution of Management's Acceptance of Risks (2600).** When the CAE believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the CAE must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the CAE and senior management must report the matter to the board for resolution.

### 3) Implementation Standards

Implementation Standards apply to the two specific types of engagements: **assurance** (.A) or **consulting** (.C). For example, Standard 1000 (Purpose, Authority, and Responsibility) consists of implementation standards 1000.A1 or 1000.C1, which are for assurance and consulting, respectively.

- 1) **Assurance services** involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions. The internal auditor determines the nature and scope of the assurance engagement. There are generally three parties involved in assurance services:
  - **The process owner**, or the person or group directly involved with the process, system, or other subject matter.
  - **The internal auditor**, or the person or group making the assessment.
  - **The user**, or the person or group using the assessment.
- 2) **Consulting services** are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties:
  - **The internal auditor**, or the person or group offering the advice.
  - **The engagement client**, or the person or group seeking and receiving the advice.

**Note:** The internal auditor should maintain objectivity and not assume management responsibility when performing consulting services.

### Recommended Guidance

#### 1) Implementation Guidance

Implementation Guides assist internal auditors in applying the Standards. They collectively address internal auditing's approach, methodologies, and consideration, but do not detail processes or procedures.

#### 2) Supplemental Guidance

Supplemental Guidance provides detailed guidance for conducting internal audit activities. These include topical areas, sector-specific issues, as well as processes and procedures, tools and techniques, programs, step-by-step approaches, and examples of deliverables.

**Note:** Previously, there was a category of recommended guidance called Practice Advisories (PAs). The PAs provided detailed guidance for the application of the Standards and were the best practices endorsed by the IIA for applying the Definition, Code of Ethics, and *Standards*. While the PAs are no longer included in the Recommended Guidance, they are included here where appropriate. The PAs tend to be longer and more detailed than the Implementation Guides and therefore make an excellent tool when preparing for the exam.

## A. The Purpose, Authority, and Responsibility of the IAA

The purpose, authority, and responsibility of the internal audit activity is the foundation on which the IAA is built as it performs its work. The text of Standard 1000, as well as its Interpretations and Implementation Standards, are shown here:

### Standard 1000 – Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

#### Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

#### Implementation Standards:

**1000.A1** – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

**1000.C1** – The nature of consulting services must be defined in the internal audit charter.

The purpose, authority, and responsibility of the IAA need to be stated in the Internal Audit Charter, which is covered in detail next.

## B. The Internal Audit Charter

The internal audit charter ("the Charter") provides the internal audit activity with a formal mandate to do its work. The Charter is:

- 1) **Written** by the Chief Audit Executive (CAE).
- 2) **Approved** by the senior management and the board or audit committee.
- 3) **Communicated** to engagement clients.
- 4) **Reviewed** periodically by the CAE to make certain it is still relevant and appropriate.

**Note:** The Model charter from the IIA is in Appendix B. We strongly recommend that you read through the entire Charter as you begin your studies and also as a final review before you take the exam.

The Charter should:

- Establish the internal audit activity's position within the organization, including the nature of the CAE's functional reporting relationship with the board.
- Authorize access to records, personnel, and physical properties relevant to the performance of engagements.
- Define the scope of internal audit activities.

## Sections of the Charter

There are seven sections in the Model Charter.

- 1) **Purpose and Mission.** Includes both the Mission of Internal Auditing and the Definition of Internal Auditing.

**From the Charter:** The purpose of Company X's internal audit activity is to provide independent, objective assurance and consulting services designed to add value and improve Company X's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit activity helps Company X accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

- 2) **Standards for the Professional Practice of Internal Auditing.** Establishes that the IAA will follow all of the mandatory elements of the IPPF. Additionally, the CAE must report periodically to the board about the IAA's conformance to the *Standards* and Code of Ethics.

**From the Charter:** The internal audit activity will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The chief audit executive will report periodically to senior management and the board regarding the internal audit activity's conformance to the Code of Ethics and the *Standards*.

This requirement to follow the *Standards* is also set out in Standard 1010:

**Standard 1010 – Recognizing Mandatory Guidance in the Internal Audit Charter**

Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter

The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing must be recognized in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.

- 3) **Authority.** Establishes the dual reporting process for the IAA and:
  - What the board will do to make certain that the IAA has sufficient authority to fulfil its duties.
  - What the board authorizes the IAA to do. This includes the board providing the IAA with full, free, and complete access to all functions, records, property, and personnel that is needed for the IAA to fulfill its duties.

The Charter should specify the dual reporting process for the IAA.

**From the Charter:** The chief audit executive will report functionally to the board and administratively (i.e., day-to-day operations) to the chief executive officer.

- 4) **Independence and Objectivity.** Specifies that the IAA must have organizational independence and that internal auditors maintain objectivity. The first two paragraphs of this section are:

**From the Charter:** The chief audit executive will ensure that the internal audit activity remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the chief audit executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

- 5) **Scope of Internal Audit Activities.** The potential scope of work for the IAA is vast. The main type of engagement is assurance, but it is also possible that the IAA will perform consulting engagements. However, if the IAA performs consulting engagements, that authorization must be specifically stated in the Charter.

**From the Charter:** The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the board, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for Company X.

The chief audit executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit activity may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit activity does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

- 6) **Responsibility.** Outlines the specific responsibilities of the CAE.

**From the Charter:** The chief audit executive has the responsibility to:

Submit, at least annually, to senior management and the board a risk-based internal audit plan for review and approval.

Communicate to senior management and the board the impact of resource limitations on the internal audit plan.

Review and adjust the internal audit plan, as necessary, in response to changes in Company X's business, risks, operations, programs, systems, and controls.

Communicate to senior management and the board any significant interim changes to the internal audit plan.

Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.

(continued)

Follow up on engagement findings and corrective actions, and report periodically to senior management and the board any corrective actions not effectively implemented.

Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.

Ensure the internal audit activity collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.

Ensure trends and emerging issues that could impact Company X are considered and communicated to senior management and the board as appropriate.

Ensure emerging trends and successful practices in internal auditing are considered.

Establish and ensure adherence to policies and procedures designed to guide the internal audit activity.

Ensure adherence to Company X's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the board.

- 7) **Quality Assurance and Improvement Program:** States that the IAA must perform engagements at the expected level of quality. The QAIP is one of the ways that the IAA assesses and ensures the proper level of quality and adherence to all of the Standards.

**From the Charter:** The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

The chief audit executive will communicate to senior management and the board on the internal audit activity's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside Company X.

## C. Assurance and Consulting Services

The two main categories of services that the internal audit activity may provide are assurance and consulting services.

The *Standards* Glossary defines **assurance services** as:

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

The *Standards* Glossary defines **consulting services** as:

Advisory and related client services, the nature and scope of which are agreed upon with the client and which are intended to add value and improve an organization's operations. Examples include counsel, advice, facilitation, process design and training.

The *Standards* state that internal auditors can **only** perform consulting services specifically defined in the internal audit charter.