

**IPPF – Practice Guide**

**ASSISTING SMALL  
INTERNAL AUDIT ACTIVITIES  
IN IMPLEMENTING THE  
*INTERNATIONAL STANDARDS FOR  
THE PROFESSIONAL PRACTICE  
OF INTERNAL AUDITING***

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## Executive Summary

The International Professional Practices Framework (IPPF) and underlying *International Standards for the Professional Practice of Internal Auditing (Standards)* provide the chief audit executive (CAE) and internal audit leadership a framework and related guidance to use in evaluating and ensuring the effectiveness of the internal audit activity. The *Standards* also provide internal auditing's stakeholders a basis for evaluating the activity's effectiveness. The *Standards* are applicable to all internal audit departments regardless of size, level of resources, complexity, or objective and scope.

This practice guide provides a working definition of the term small internal audit activity. The guide acknowledges the challenges that CAEs and audit leadership in small audit activities may face in implementing the *Standards*, provides suggestions for meeting those challenges, and discusses the benefits of using the *Standards*. Many of the challenges discussed in this guide are not unique to small audit activities; larger activities may face many of the same challenges. However, these challenges are more frequently encountered and more difficult to overcome in small audit activities.

Although the CAE of a small internal audit activity is responsible for ensuring implementation of all *Standards*, the degree of challenge for conformance to each standard may vary among small activities. The chart in the Introduction provides a visual summary of the degree of challenge that the CAE may face in conforming to the *Standards*. The chart is based on informal discussions with small audit groups and also amongst the members of The IIA's committees. Although conformance with the *Standards* may pose challenges, it is possible with the development of appropriate strategy and planning. The *Standards* are principles-based and are meant to be applicable to internal audit activities of all sizes.

The CAE of a small audit activity should assess the current level of conformance to each standard to determine gaps in conformance to the overall *Standards*. (A template is provided in Appendix A.) Upon identification of gaps, the CAE should develop a plan to fully conform to the *Standards* based on guidance in this practice guide and other IPPF guidance. It is important for the CAE to incorporate elements of the *Standards* into the internal audit activity's vision, mission, and charter. Further, it is critical that the CAE clearly communicates the activity's vision, mission, and charter to key stakeholders.

## Introduction

The IIA is pleased to present this practice guide to assist small internal audit activities in implementing the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

The scope of work performed by today's practitioners is broad and varied. There is a heightened need for concise guidance that can be adopted and followed readily, regardless of the industry, audit specialty, or sector. The IIA's International Professional Practices Framework (IPPF) provides practical guidance in the form of *Standards*, Practice Advisories, Practice Guides, and Position Papers. Within the IPPF is mandatory guidance and strongly recommended guidance. This practice guide is intended to serve as strongly recommended guidance for use primarily by small internal audit activities.

This practice guide provides specific examples and leading practices, relevant to the CAE and audit management of small internal audit activities, on how to best approach implementation of the *Standards*.

The guide provides information in the following format:

IIA Standard	Definition of each standard
Challenges	Likely challenges small internal audit activities face in conforming to The IIA's <i>Standards</i> .
Guidance	Recommended guidance on conforming to The IIA's <i>Standards</i> .

Small internal audit activities should conform to all IIA standards. Appendix A provides a template for mapping, including a list of the *Standards*.

STANDARD #	STANDARDS TITLE	DEGREE OF CHALLENGE
1000	Purpose, Authority, and Responsibility	L
1100	Independence and Objectivity	H
1200	Proficiency and Due Professional Care	M
1300	Quality Assurance / Improvement Program	H
2000	Managing the Internal Audit Activity	H
2100	Nature of work	M
2200	Engagement Planning	H
2300	Performing the Engagement	H
2400	Communicating Results	M
2500	Monitoring Progress	M
2600	Management's Acceptance of Risks	M

Indications of likely degree of challenge:

**Green** – Low degree of challenge

**Amber** – Medium degree of challenge

**Red** – High degree of challenge

## Definition of a Small Internal Audit Activity

The views of internal audit practitioners globally vary on the criteria for defining an internal audit activity as small. The criteria are affected by the characteristics of the internal audit activity — role and purpose, maturity, country and culture, and the global or local nature of the organization in which it operates.

For purposes of this guide, several common elements have been considered as being related to a small audit activity. Typically, a small internal audit activity will have one or more of these characteristics:

- One to five auditors.
- Productive internal audit hours below 7,500 a year.
- Limited level of co-sourcing or out-sourcing.

Being small does not equate to being ineffective or under resourced. In many circumstances, a small internal audit activity is appropriately structured for the size and risks attributable to the business it serves.

However, smaller audit activities may have challenges not typically faced by larger audit activities that have greater economies of scale.

## Key Challenges Faced by Small Internal Audit Activities in Implementing IIA *Standards*

### Adequacy of Resources

Limited resources impact the small internal audit activity's ability to conform to many IIA *Standards*. For example, the Quality Assurance and Improvement Program standard that requires internal assessments periodically and external assessments at least every five years may be

difficult to achieve due to inability to fund an external assessment. Additionally, large investments in innovation or automation for the internal audit activity may not be permissible within constrained budgets. For each of the following standards, suggestions are provided to assist the CAE in achieving conformance, despite potential limitations.

### Retention of Qualified Staff or Subject Matter Experts

Small internal audit activities may have difficulty attracting, hiring, or engaging subject matter specialists (i.e., specialists to execute audits that relate to the complex risks facing the organization). For example, technology audits and audits of specialized industries may be more difficult to staff adequately if budget constraints are present or the necessary expertise to perform these audits does not reside within the department. For the CAE and audit leadership, recruitment and retention of qualified staff or specialists is critical as small audit activities often lack the traditional hierarchies of management staff and attractive compensation packages associated with larger audit activities. Conversely, a small activity may attract more experienced auditors who would welcome the opportunity to work with less hierarchy and/or the ability to make more direct contributions to the audit group.

### Independence

Small audit activities also may have challenges with independence and objectivity due to the reporting structure of the activity, newness of the activity, closer associations with management, weaker organizational governance, and the existence of additional responsibilities outside of the core activity.

## Guidance for Implementing the *Standards*

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

#### Standard:

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The CAE must periodically review the internal audit charter and present it to senior management and the board for approval.<sup>1</sup>

#### Challenge:

Degree of Challenge	LOW
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Conformance with this *Standard* is not dependent upon the size of the audit activity and should present no unique challenges for the small audit activity.

#### Guidance:

The CAE should discuss the requirement for a charter with the board and appropriate senior management, thoroughly explaining the purpose of the internal audit charter and the benefits provided to the organization from the charter's adoption. It is important for the CAE to incorporate elements of the *Standards* into the internal audit activity's vision, mission, and charter. Further, it is critical that the CAE clearly communicate the activity's vision, mission, and charter to key stakeholders. The CAE must periodically (e.g., annually) review and assess the contents of the charter, and the policies and procedures, to ensure the content is relevant and continues to add value to the organization. These reviews must be communicated to the board and senior management. The board should annually review and approve the charter. The CAE should maintain

documentation of all communications with the board and senior management pertaining to the internal audit activity's charter, policies, and procedures.

### Conforming With Standard 1100 – Independence and Objectivity

#### Standard:

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

#### Challenge:

Degree of Challenge	HIGH
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Difficulties with reporting levels and organizational structure are not unique to small internal audit activities. However, individual independence and objectivity of auditors in a small activity, and particularly within a smaller organization, can be challenged as these auditors may be given operational responsibility for other activities, such as records management, compliance activities, IT security, investor relations, risk management, or other finance and accounting activities. Additionally, auditors in a smaller organization often establish closer relationships with other members of the management team, creating the perception that a conflict of interest may be present. The department's organizational reporting structure may also impair its independence or objectivity, depending on the nature of the reporting relationships. For example, the CAE may not functionally report to the board or to a member of the executive team. Instead, the CAE may report to an individual who performs, or who has direct responsibility for, areas that are the subject of audits.

#### Guidance:

It is imperative that the CAE maintain open communication with the board and senior management concerning the importance of auditor independence and objectivity.

<sup>1</sup> For purposes of this Practice Guide, the Interpretations to the Standards, and often the layers of Standards beyond the top one in a category, are not included. The reader is referred to the full Standards to understand fully the requirements and meanings of each of the Standards, including their introduction, interpretations and glossary.

The difficulties involved with auditing those areas over which auditors may have been given operational responsibility should be fully explained. The CAE should present various alternatives for how those areas might be audited, including the use of external resources. For example, with sufficient resources in the internal audit function, only those auditors who are not directly responsible for the operational area or an outside service provider could perform the audit, and the results could be communicated to both the CAE and another member of management external to the function. If this solution is not practical, then the impairments and other auditing alternatives should be included in the CAE's risk assessment for the audit plan, and discussed with the board and senior management.

In organizations where close working relationships are an expectation, the work of the internal audit function should always be performed with objectivity and independence in mind. The CAE or audit leadership should clearly communicate to the board and senior management engagement scope and basis for conclusions. The CAE and other auditors should continue to reinforce the importance of auditor independence and objectivity (at the organization or engagement level).

Overall, the CAE should discuss these challenges, as well as the challenges resulting from organizational reporting structures, with the board and appropriate level of senior management. Such communication should be made in conjunction with establishing the audit plan and more frequently if warranted based on engagements performed or to be performed. However, the CAE should use caution to ensure that such communications are not perceived as excuses or impediments to performing certain audits. When issuing a report where independence or objectivity could not be achieved satisfactorily, the CAE has the obligation to disclose this fact in the audit report including reason(s) and related impact.

## Conforming With Standard 1200 – Proficiency and Due Professional Care

### Standard:

Engagements must be performed with proficiency and due professional care.

### Challenge:

Degree of Challenge	MEDIUM
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The challenges faced in conforming to this series of *Standards* are compounded in a small internal audit activity with limited resources as the activity may not be able to hire the personnel or third-party specialists required to perform the work (due to budget limitations) or may not be able to invest in training for current staff to gain these skills.

### Guidance:

When striving to perform engagements proficiently and with due professional care, the emphasis is on deploying qualified resources. Although supervision of engagements is expected, the CAE should seek auditors with sufficient experience who may not require extensive supervision. Additionally, the CAE could also ensure that those auditors with limited experience are performing engagements commensurate with their experience. Overall, the CAE should seek resources with experience and knowledge that are complementary to the skills necessary to execute the audit plan.

The CAE may need to determine if an internal, external, or mixed staffing model would best serve the needs of the internal audit activity and the organization. Opportunities to leverage other organizational resources may exist. Such opportunities could allow internal auditing to guide and supervise the efforts of nonaudit staff members who have the relevant knowledge and objectivity to perform specific engagements. In many cases, the nature of engagements to be performed may imply the need to engage specialists within or external to the organization.



In addition, the CAE may consider:

- Using a formal process that is well-organized and documented.
- Seeking guidance from peers.
- Using reference materials such as books, audit programs, internal control questionnaires (ICQs), templates, regulatory guides and manuals, etc.

When training resources — either time or funds — are limited, the internal audit activity should leverage training that is provided free of cost or low cost (e.g., Web-based training, local IIA training). The CAE also should ensure that training attended by one member of the audit activity is discussed with other members of the activity. The CAE should maximize the use of the services and resources of local professional associations and organizations. Opportunities also may exist to partner with functional groups within the organization or other internal audit activities in securing training of mutual interest at competitive rates.

The CAE also may consider reaching out to CAEs of larger internal audit activities in the local area to explore joint training and to their external auditors to explore technical accounting/controls training.

## Conforming With Standard 1300 — Quality Assurance/Improvement Program

### Standard:

The CAE must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

1310 - The quality assurance and improvement program must include both internal and external assessments.

1321 - The CAE may state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement program support this statement.

### Challenge:

Degree of Challenge	HIGH
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Financial resources may limit the ability to perform an external or internal quality assessment (QA) in accordance with the Standards. The performance of an internal QA also may be challenging due to time and staff constraints and lack of suitable independent reviewers.

### Guidance:

When scheduling internal assessments, small internal audit activities may need to consider greater involvement of those with suitable knowledge of internal audit practice. CAEs oversee such assessments; however, individuals performing these assessments may also include resources within the organization who have prior audit experience or who are specifically trained to perform QAs. Quality should be integrated into the audit process. For example, audit review should be embedded as a part of each audit and obtaining feedback from stakeholders through surveys or documented discussions should be part of the audit routine. The annual review of audit templates, etc. also may be part of the internal assessment and improvement program.

The format and length of such assessments should facilitate review and completion. The better defined the expectations for components of the internal audit activity, the extent of documentation, etc., the easier it will be to clearly measure performance against these expectations. Use of checklists outlining these defined expectations simplifies this internal assessment process. Checklists and tools available from The IIA's Quality Assurance Manual support the timely and cost-effective completion of these assessments.

For the small internal audit activity, internal self-assessments should be performed at least annually. More frequent self-assessments are encouraged as permissible by organization or department constraints. These internal



assessments should be documented to help facilitate the external assessment.

External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The small internal audit activity may use external peer organization reviews to satisfy the above standard. To facilitate such reviews, the CAE can engage other internal audit activities of similar size or of similarly sized organizations to participate in such reviews. Organizations also can coordinate with local IIA chapters/institutes to identify participants. For example, four similar-sized organizations may perform external assessment of each other in a manner that no two organizations review each other. Arranging this type of bartered peer review enables the small audit activity to reduce third-party assessments fees, though there will be opportunity costs of use of company staff. The CAE will need to consider the qualifications and independence of the peer reviewer and appropriateness of review frequency. Another option for external assessment is a self-assessment with external validation by an independent firm. This is a means to lower the cost.

Finally, the CAE must communicate the results of the quality assurance and improvement program to senior management and the board.

## Conforming With Standard 2000 – Managing the Internal Audit Activity

### Standard:

The CAE must effectively manage the internal audit activity to ensure it adds value to the organization. The interpretation of this standard further provides that the internal audit activity is effectively managed when:

- The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter.
- The internal audit activity conforms with the

Definition of Internal Auditing and the *Standards*.

- The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the *Standards*.

### Challenge:

Degree of Challenge	HIGH
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The CAE of a small internal audit activity could have difficulty demonstrating that the activity adds value to the organization if the priorities of the department differ from management's perspective. If internal auditing's mission is focused on auditing the effectiveness of the control environment, while senior management or the board views cost recovery efforts to be a better value-added activity, then conflict can arise.

In addition, if the internal audit activity is overworked, or is frequently called on to perform ad hoc engagements at the request of management, the internal audit charter may not be fulfilled. In this case, internal auditing risks becoming just another support function within the organization, and the objectivity and purpose of the activity can be compromised.

### Guidance:

Toward the attainment of the organization's objectives, it is important that the internal audit charter clearly sets forth the mission of the department and that the charter is endorsed by senior management and approved by the board. The CAE should invest the appropriate time needed to educate the stakeholders on the purpose of internal auditing and the value that can accrue to the organization when governance, risk management and controls are appropriately designed and operating effectively.

The CAE should periodically solicit feedback from key stakeholders to ensure the activity continues to perform value-added audits and that the audit plan remains aligned with the strategic objectives and key risks facing

the organization (due to proximity with the stakeholder, it may be easier to solicit feedback in a small internal audit activity environment). If the internal audit activity's mission is aligned with the organization's strategic objectives, it is likely that this standard will be met.

Elements of a well-managed function such as risk-based planning, timely and effective communication to key stakeholders, well-established policies and procedures, and effective coordination with other assurance providers are the same for large and small audit organizations. The level of formality of these elements varies based on the needs of the organization and the size of internal auditing. The factors that resulted in the need for a small internal audit activity are likely the same factors that allow for less formality in the method of conformance with the *Standards*. The CAE should continue to focus on a risk-based audit plan that can be supported by available resources. Also, appropriate communication should be made to the stakeholders regarding those audit areas that cannot be accomplished due to resource limitations.

## Conforming With Standard 2100 – Nature of Work

### Standard:

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

### Challenge:

Degree of Challenge	MEDIUM
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If the small internal audit activity is operating within a small organization, the governance, risk, and control processes may still be evolving. Internal auditing may be one of the groups with the skill sets to perform these functions or may have responsibility for many of the functions supporting governance, risk, and control. Furthermore, controls may not be adequately designed or may not

operate as intended, increasing the risk of the organization failing to achieve success.

If the small audit activity is operating within a larger or more established organization, the governance, risk management, and control processes may be more mature. In this case, the challenge could shift to ensuring that the roles and responsibilities of internal auditing are clearly communicated to avoid duplication of effort among these processes or gaps in assigning ownership for the processes.

The limited size of the audit activity may make it difficult for internal auditing to cover all mandated areas in the 2100 section of the *Standards*.

### Guidance:

Whether the small internal audit activity is operating within a small or large organization, internal auditing is expected to contribute to the improvement of governance, risk management, and control processes simply through the completion of its work.

A clear definition of the roles and responsibilities of the board, management, and internal auditing with respect to governance, risk, and control processes would help to ensure the appropriate attention and resources are assigned to those areas. The CAE may include a few questions on key issues and internal audit roles for discussion with the audit committee, documenting the response. It is important for the internal audit activity to remain focused on evaluating the effectiveness of these areas, however, as management remains responsible for designing and implementing effective governance, risk management, and control processes. The CAE should ensure that consulting engagement objectives are consistent with the overall values and goals of the organization.

The internal audit activity should use its risk-based audit approach to ensure adequate focus on all areas mandated by the *Standards*. The depth, frequency, and nature of audit work should be modified based on the risk of the area and available level of resources.

## Conforming With Standard 2200 – Engagement Planning

### Standard:

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.

### Challenge:

Degree of Challenge	HIGH
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A key component of planning is the performance of a preliminary assessment of the risks relevant to the area under review. Applicable engagement objectives should reflect the results of the preliminary risk assessment. The ability to perform such an assessment may be impacted by the skill level of the staff/specialist and time available to appropriately assess such risks. Additional challenges may lie in the degree to which engagement planning is formalized and documented.

### Guidance:

The CAE should develop planning considerations in the form of checklists for common engagement types. Classification of engagements on the basis of criteria such as risk or complexity, number of planned hours, level of staff assigned to the engagement, and intended audit report users/audience may better define degree of formality, detail, and duration of engagement planning. Classification of engagements also may drive who may perform related planning.

Three key components of the planning process are:

- Defining engagement objectives — Identifies the purpose of the engagement and includes a preliminary assessment of risk. For planned engagements, the objectives are aligned with those initially identified during the risk assessment process and are often driven by the internal audit plan. For unplanned engagements, the objectives are established at the

onset of an engagement and are specific to underlying issues triggering it.

- Defining engagement scope — Identifies technical requirements, objectives, risks, processes, and transactions to be examined. This component also considers the nature and extent of testing required.
- Defining engagement audience — Identifies how, when, and to whom engagement results will be communicated. This includes reporting subsequent changes that affect the timing or reporting of engagement results.

These three components should drive many of the factors that are considered at the planning stage such as:

- Engagement duration and key due dates.
- Engagement staffing.
- Extent of documentation (e.g., for use in recurring engagements).

Engagement scope should specifically consider relevant risks. To allow small audit activities to gather meaningful information about engagement-specific risks, internal auditing should leverage the following related to the areas under audit, if available:

- Management's own risk self-assessments or questionnaires for the engagement area.
- Management's related process narratives or flow-charts.
- Management's related internal reporting.
- Information regarding management's risk tolerances or appetite (could include SWOT analysis and/or results of external consulting activities).
- Internal auditing's independent risk inventory.
- Internal auditing's evaluation of historic internal or external audit findings.
- Internal auditing's review of prior internal audit reports or working papers.

- Management surveys that may provide insights.
- Review of the organization's strategic plan, budget, regulatory filings, internal management communications, independent consideration of market/inherent risks by internal auditing, etc.
- Review of regulatory compliance programs (e.g., US Sarbanes-Oxley Act) and results where applicable.
- Others.

The higher the associated risk of an engagement, the greater the formality and documentation needed to support engagement planning.

Additionally, development of work program templates by engagement type will lessen the time staff needs to complete engagements and will also ensure that engagement objectives are appropriately incorporated into the work performed. The CAE should revisit such templates at least annually to ensure that work required is relevant and appropriate in the context of the audit plan. The CAE should specifically ensure that sampling methods and requisite analysis supporting engagement execution and conclusion are approved before the engagement begins. The most experienced auditors should lead the completion of the most complex work programs where possible.

## Conforming with Standard 2300 – Performing the Engagement

### Standard:

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

2340 - Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

### Challenge:

Degree of Challenge	HIGH
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The CAE may not be able to supervise all engagements as he or she may be performing some engagements in addition to supervising. Additionally, many smaller activities using manual workpapers may be challenged by the need to maintain evidence of engagement supervision. Time to develop staff and related supervisory skills may be limited. An additional challenge may be that the CAE is so involved in the engagement that it does not receive sufficient independent review.

The small audit activity also may lack the quantity and quality of experienced auditors needed to easily identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives. Additionally, workload and related challenges may limit staff's ability to base engagement conclusions upon appropriate analyses and evaluations of information during engagement performance.

### Guidance:

#### ENGAGEMENT PERFORMANCE AND REVIEW

CAEs are encouraged to take a more involved role in high-risk or complex engagements performed by internal auditing.

For complex engagements, the CAE may need to be engaged and oversee the progress of the engagement at routine intervals or if possible at key stages of engagement completion. However, within such engagements, it is possible that more experienced audit staff can review areas of lower risk and complexity under the CAE's supervision.

For engagements performed by the CAE that are of lower risk, review of the CAE's work by experienced audit staff within the function may be suitable provided such review is documented. For complex engagements performed by

the CAE, peer reviews are recommended. The review may be performed by others in the organization with suitable audit or alternate professional backgrounds in subject areas of the audit conducted. However, such reviews are recommended to be structured and performed so as to not impair the independence and objectivity of the function.

Additionally, it is recommended that expectations for audit evidence — including types of evidence and related analysis — to support conclusions be set at the onset of the engagement. These expectations should be set by the CAE for complex engagements or by experienced staff within the function for less complex engagements. The quality of information gathered or analysis prepared to support audit conclusions should be evaluated with the guidance provided for Standard 2340.

Use of experienced staff within the audit function to review the work of less experienced staff may be acceptable for lower risk and less complex engagements. Within such engagements, key elements may still warrant CAE review and consideration; however, such elements are expected to be a smaller subset of executed engagements. Key elements of the engagement at minimum should include a listing of findings and recommendations.

In the context of the above guidance, it is recommended that the CAE or those assigned to engagement supervision sign off on engagement working papers to document evidence of their review. Additionally, it is recommended that these individuals indicate when such reviews were performed. Such reviews must be performed timely. The timeframe will be defined by the nature and purpose of audits performed and should be established by the CAE consistent with Standard 2200.

## Conforming with Standard 2400 – Communicating Results

### Standard:

Internal auditors must communicate the results of engagements.

### Challenge:

Degree of Challenge	MEDIUM
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A small internal audit activity may face challenges in establishing criteria for issuing communications as required by Standard 2410. Activities operating with few resources may find it difficult to issue formal audit reports for each engagement performed. These activities also may have limited written guidance for their staff regarding when such reports must be issued. Challenges also may exist in context of standards 2420 and 2440, where small internal audit activities may lack the experienced or sufficient resources to produce communications that are accurate, objective, concise, constructive, complete, and timely. Although engagement communications must conform to IPPF Standards of Quality, the ability to provide such communications timely may pose greater challenges for the small audit activity. Absence of formalized policies to guide the review and drafting of such communications may further limit the function's ability to produce the applicable communications timely to the appropriate parties. Additional challenges include maintaining consistency in evaluating results, assigning levels of importance and priority, and ensuring timely response on draft reports issued.

### Guidance:

To better use the time and limited resources at internal auditing's disposal, establishment of engagement specific reporting should be defined as part of engagement planning. The *Standards* should be specifically considered at the engagement planning stage so that the nature of communication is understood during the execution phase.

The CAE should refer to the Practice Advisories for the Standards 2420 and 2440 and specifically consider the following actions to provide quality communications:

Develop guidance for staff on how to draft meaningful and concise communication.



Establish department practices to ensure that experienced auditors have a common understanding of the requirements of the communication as driven by the CAE and organization-specific requirements. These practices should include expected content and format of communications, guidance regarding to whom the communications should be addressed, and whether others outside the function should be consulted before finalization and release.

Establish key criteria that must be met by each communication before being authorized for release by the CAE. It is advised that the CAE establish such criteria in conjunction with the more experienced auditors. This will ensure that key criteria are agreed upon before the drafting of such communications and should in turn reduce the time needed for the CAE or designate to review and release such communications. It is imperative that such criteria not contradict the overall intent of Standard 2400 and related underlying standards.

## Conforming with Standard 2500 – Monitoring Progress

### Standard:

The CAE must establish and maintain a system to monitor the disposition of results communicated to management.

### Challenge:

Degree of Challenge	MEDIUM
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The challenges faced in conforming to this standard are not unique to small audit activities but are certainly compounded in an audit activity with limited resources. Timely follow-up with management regarding agreed upon remediation plans for internal audit findings may be difficult to work in if the department work plan does not schedule time to accomplish this objective.

### Guidance:

CAEs for small internal audit activities should consider a strategy to prioritize the findings on which to follow-up (in cases where audit findings are risk ranked or rated, the same prioritization may be followed). As part of the process the CAE should require management representation that the matter has been addressed appropriately, before any further audit work. General guidance on prioritization appears below:

PRIORITIZED AUDIT RECOMMENDATIONS (RATINGS)	FOLLOW-UP STRATEGY	COMMENTS
High Risk/Priority	Validation by Internal Auditing	Internal auditing should review and agree to the remediation plan and validate its results at completion.
Medium Risk/Priority	Self-assessment	Internal auditing should rely on validation by business process owner. Remediation plan should be validated during the subsequent audit.
Low Risk/Priority	Self-assessment	Internal auditing should rely on validation by business process owner and may consider validation in the subsequent audit.

In addition, internal auditing can request firm commitments from management when discussing recommendations at the end of the audit period (status could be included in board reporting). These commitments can serve as a basis for scheduling follow-up time for high-risk or high-priority matters. A good productivity tool is a spread-



sheet that lists open issues, owners, due date, a brief summary of matter, and current status. A better tool could be an intranet Web-based solution found in many small organizations that the internal audit activity could use.

## Conforming with Standard 2600 – Management’s Acceptance of Risk

### Standard:

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 must report the matter to the board for resolution.

### Challenge:

Degree of Challenge	MEDIUM
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As stated in the *Standards*, CAEs may have challenges with maintaining independence and objectivity as auditors and/or the CAE are given operational responsibilities. In some cases, the CAE might be part of the management team that has defined the acceptable level of risk. Also, if internal auditing does not report high enough in the organization, or if the CAE does not hold a high level of status by title or level of responsibility, his or her voice on the acceptable level of risk may not be heard by the management team.

### Guidance:

The CAE for a small audit activity may consider including sections in the internal audit charter to describe the resolution process in cases where management disagrees with internal auditing’s recommendation or acceptable level of risk. The resolution process should include escalation of disagreement with management to the board when necessary. In cases where the internal audit charter does not include any resolution process, the CAE should inform the board of such matters. In either case, the communication should be documented.

The CAE should also review The IIA’s Position Paper on The Role of Internal Audit in Enterprise-wide Risk Management. The paper addresses the roles that internal auditing should not undertake and those that should be taken with appropriate safeguards.

## Reliance on the Work of Small Audit Activities by External Auditors

Small internal audit activities are often requested, or directed by their charter, to provide direct assistance to the external auditors to reduce the cost of the external audit. The ability of external auditors to rely upon the work of internal auditing may be limited in circumstances giving rise to one or all of these conditions:

- Limited independence of the activity based on current reporting lines.
- Lack of experience or qualifications within the activity, this includes inadequate training.
- Limited scope of work of the activity that may not cover the full scope of the external audit.

### Limited independence of the function.

- Although some CAEs may report to the chief executive officer or the chief financial officer, the formalization of functional reporting to the board may not have been established. In such cases, documentation and justification of the internal audit activity’s current reporting structure may provide some support for the external auditor to consider partial or full reliance on the work of internal auditing.
- Alternatively, in such cases, a small internal audit activity could work with the external auditor to highlight how the current reporting structure could be modified to allow the external auditor to leverage the work of the function, which in turn may provide greater savings in external audit completion time and related fees.

- For select audits, small internal audit activities may want to consider concurrent audit execution with the external auditors. In such cases, although audit evidence may be jointly evaluated, internal auditing may lead documentation of audit work. This approach still may allow partial usage of the audit activity's work by the external auditor.

### **Lack of experience or qualifications within the function.**

- Requirements of staff to attain IIA or equivalent certifications for internal audit staff may not be met in light of funding constraints. Staffing the function with individuals that hold such designations will reduce future expenditures in this regard.
- Leveraging opportunities to seek group training amongst other local small internal audit activities may reduce overall expenditures and provide opportunities for the staff to obtain continuing professional education.
- Retention of evidence supporting completion of training by the audit staff may provide the external auditor greater comfort regarding the competency levels of the activity.
- Formalized review of workpaper documentation by an individual or individuals with appropriate qualifications and/or experience might compensate for resources within the audit activity that might otherwise be deemed inexperienced or unqualified.

### **Limited scope of work of the activity that may not cover the full scope of the external audit.**

- External audit requirements for sampling and nature and extent of procedures may not correspond to that of the internal audit activity.
- The *Standards* encourage collaboration with external auditing and such collaboration may include discussion of external audit sampling and scoping parameters. Such discussions in advance of audit plan development and execution may allow for greater reliance on the work of internal auditing.
- Sharing the support and basis for the current internal audit plan, including risks addressed, with the external auditor may result in the potential revision of its planned work.
- For areas of the external audit plan not addressed by the internal audit plan, consideration should be given to using suitable noninternal audit organization resources to perform additional work under the supervision of the CAE. Such opportunities should be discussed with the external auditor and management and considered in the context of potential time and cost savings for the external audit.

## **Authors:**

Princy Jain, CIA, CCSA

Kiko Harvey

Rita Thakkar, CIA

Robert W. Cates, CIA

## **Reviewers and Contributors:**

Maria Mendes, CIA, CCSA

Takeshi Shimizu, CIA, CCSA

Douglas J. Anderson, CIA

James Rose, CIA

Steven E. Jameson, CIA, CCSA, CFSA

## Appendix A – Template to Facilitate Determination of Gaps in Conformance with the Standards

STANDARD #	STANDARD TITLE	CURRENT STATUS
1000	Purpose, Authority, and Responsibility	
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter	
1100	Independence and Objectivity	
1110	Organizational Independence	
1120	Individual Objectivity	
1130	Impairments to Independence or Objectivity	
1200	Proficiency and Due Professional Care	
1210	Proficiency	
1220	Due Professional Care	
1230	Continuing Professional Development	
1300	Quality Assurance / Improvement Program	
1310	Quality Program Assessments(This standard includes 1311–Internal Assessments and 1312–External Assessments)	
1320	Reporting on the Quality Program	
1321	Use of “Conducted in Accordance with the Standards”	
1322	Disclosure of Nonconformance	

† The internal audit activity should self-assess current status on a scale of 1-5 (where 1 is the lowest conformance and 5 being highest conformance). In cases where conformance status is towards the lower end, the CAE should establish a plan to enhance it.

STANDARD #	STANDARD TITLE	CURRENT STATUS
2000	Managing the Internal Audit Activity	
2010	Planning	
2020	Communication and Approval	
2030	Resource Management	
2040	Policies and Procedures	
2050	Coordination	
2060	Reporting to the Board and Senior Management	
2070	External Service Provider and Organizational Responsibility for Internal Auditing	
2100	Nature of work	
2110	Governance	
2120	Risk Management	
2130	Control	
2200	Engagement Planning	
2201	Planning Considerations	
2210	Engagement Objectives	
2220	Engagement Scope	
2230	Engagement Resource Allocation	
2240	Engagement Work Program	
2300	Performing the Engagement	
2310	Identifying Information	
2320	Analysis and Evaluation	
2330	Recording Information	
2340	Engagement Supervision	
2400	Communicating Results	
2410	Criteria for Communicating	

STANDARD #	STANDARD TITLE	CURRENT STATUS
2420	Quality of Communications	
2421	Errors and Omissions	
2430	Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”	
2431	Engagement Disclosures of Nonconformance	
2440	Disseminating Results	
2450	Overall Opinions	
2500	Monitoring Progress	
2600	Management’s Acceptance of Risks	



## About the Institute

Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in Altamonte Springs, Fla., USA. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

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Practice Guides provide detailed guidance for conducting internal audit activities. They include detailed processes and procedures, such as tools and techniques, programs, and step-by-step approaches, as well as examples of deliverables. Practice Guides are part of The IIA's International Professional Practices Framework. As part of the Strongly Recommended category of guidance, compliance is not mandatory, but it is strongly recommended, and the guidance is endorsed by The IIA through formal review and approval processes. For other authoritative guidance materials provided by The IIA, please visit our website at [www.theiia.org/guidance](http://www.theiia.org/guidance).

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### GLOBAL HEADQUARTERS

247 Maitland Ave.  
Altamonte Springs, FL 32701 USA

**T:** +1-407-937-1111  
**F:** +1-407-937-1101  
**W:** [www.theiia.org](http://www.theiia.org)