

# BEST PRACTICES FOR INTERNAL AUDIT SHOPS

JANUARY 18, 2011  
INSTITUTE OF INTERNAL AUDITORS  
LOUISVILLE CHAPTER  
RESCARE, INC.

Panel  
Discussion  
&  
Roundtable  
Event

# INTRODUCTION OF OUR PANEL

- Meredith Hettinger, VP of Internal Audit Services – ResCare
- Jodi Renn, Director of Internal Audit – KHEAA / KHESLC
- James Rose, Chief Audit Executive – Humana Inc.
  
- *Moderator – Melissa Koellner, IA Consulting Leader – Humana Inc.*

# OVERVIEW OF SURVEY PROCESS

- Survey topics included:
  - Board Interaction
  - Proficiency & Due Professional Care
  - External Service Providers
  - Continued Professional Education
  - Quality Assurance & Improvement Program
  - Planning
  - Reporting to Sr. Management & the Board
  - Risk Management
  - Communicating & Disseminating Results
  - Overall Opinions
  - etc.

# IIA STANDARDS

Survey  
Results &  
Panel  
Discussion

# BOARD INTERACTION

- IIA Standard 1111 - The chief audit executive must communicate and interact directly with the board.
- *Discussion Topic: How have you interacted with your Board in ways that you consider innovative? (e.g. retreats, frequent meetings, etc.)*

## SURVEY RESPONSES

- Audit Committee meetings outside of the normal Board meeting dates to focus solely on Audit Committee matters
- Periodic meetings to share best practices and "hot topics" to help educate and keep the Board informed
- Periodic telephone calls with the chairman to discuss open findings and any other project issues
- Periodic email updates to the Board

**SURVEY  
RESPONSES  
(CONT'D)**

- Open door policy for Board members to stop by when they are in the building to catch up on what's happening
- Deliver IIA presentation on Audit Committees to the Board at a Board Retreat
- *THOUGHTS FROM OUR PANEL?*

# PROFICIENCY & DUE PROFESSIONAL CARE

- IIA Standard 1200 - Engagements must be performed with proficiency and due professional care.
- *Discussion Topic: What practices does your internal audit shop employ to ensure each engagement is performed with the necessary proficiency and due professional care? (e.g. staff must sign a Code of Ethics, conflicts of interest, etc.)*

## SURVEY RESPONSES

- Annual Code of Ethics completion, including conflict of interest statement(s) and confidentiality agreements
- Certification and/or training requirements
- Standardized workpaper formats / audit standards manual
- Detailed review of workpapers and overall engagement level reviews
- Internal peer review procedures
- Utilize team approach to audits; bring in experts where needed
- ***THOUGHTS FROM OUR PANEL?***

# EXTERNAL SERVICE PROVIDERS

- IIA Standard 1210.A1 - The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills or other competencies to perform all or part of the engagement.
- *Discussion Topic: What practices do you have in place to ensure the staff members have the appropriate knowledge, skills, and abilities (KSA) to perform the assignments? (e.g. required CPE, department library, knowledge base technology, etc.)*

## SURVEY RESPONSES

- Membership in professional organizations
- Required training – internal and external
- Monthly meetings to review latest guidance and industry developments
- Internal control and accounting/auditing guidance libraries and modules
- Subscriptions to journals and web services
- Extensive planning procedures
- Utilize IIA network to reach out to other internal auditors for advice, programs, and questionnaires
- ***THOUGHTS FROM OUR PANEL?***

# CONTINUED PROFESSIONAL DEVELOPMENT

- IIA Standard 1230 - Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.
- *Discussion Topic: How do you support audit staff members in enhancing their KSA? (e.g. internal trainings, IIA conferences, etc.)*

## SURVEY RESPONSES

- Monthly internal meetings/trainings to review latest guidance and industry developments
- External webinars, trainings, and conferences, as needed
- Require associates to maintain appropriate licenses and certifications
- CPE hour requirements
- Professional memberships
- Discuss development through annual performance review and ongoing coaching sessions
- ***THOUGHTS FROM OUR PANEL?***

# QUALITY ASSURANCE & IMPROVEMENT PROGRAM

- IIA Standard 1300 - The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.
- *Discussion Topic: What tools have you implemented to ensure quality practices are being performed properly? (e.g. quality checklists, peer review, etc.)*

## SURVEY RESPONSES

- Quality reviews performed by the Manager, Director, or VP
- Internal peer review procedures - annually
- External QARs scheduled every 5 years
- Internal quality assessments / quality checklists
- *THOUGHTS FROM OUR PANEL?*

# PLANNING

- IIA Standard 2010 - The CAE must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.
- *Discussion Topic: What ways have you been able to gather feedback from senior management and the Board to assist in this process? (e.g. questionnaires, face-to-face meetings, etc.)*

## SURVEY RESPONSES

- Face-to-face meetings with executive and senior management and the chair of the Audit Committee
- Emails / questionnaires to management
- Attend semi-annually leadership meetings where company objectives are discussed
- Utilize both face-to-face meetings and questionnaires to prepare a risk assessment
- *THOUGHTS FROM OUR PANEL?*

# REPORTING TO SENIOR MANAGEMENT & THE BOARD

- IIA Standard 2060 - The CAE must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
- *Discussion Topic: What ways do you use to communicate to the board? (e.g. present during board meetings, meet privately with the chairman, etc.)*

## SURVEY RESPONSES

- Annually present overview of department to Audit Committee (including staffing, responsibilities, audit plan, independence, etc.)
- Quarterly reporting and/or periodic presentations to discuss the status of the annual plan and issues identification
- Private session with Audit Committee at each meeting
- Periodic phone conversations with the Audit Committee Chair
- ***THOUGHTS FROM OUR PANEL?***

# RISK MANAGEMENT

- IIA Standard 2120 - The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.
- *Discussion Topic: In what ways has your department effectively implemented a risk assessment function?*

## SURVEY RESPONSES

- Annual risk assessment utilized for completion of annual plan
- Annual risk assessment presented to and discussed with the Audit Committee
- Utilize results of management survey and results of annual risk meeting to develop risk assessment
- Lead (or assist risk management function) in company-wide ERM procedures
- ***THOUGHTS FROM OUR PANEL?***

# COMMUNICATING RESULTS

- IIA Standard 2400 - Internal auditors must communicate the engagement results.
- *Discussion Topic: In what ways have you found it most effective to communicate engagement results? (e.g. exit conferences, copies of the report, etc.)*

## SURVEY RESPONSES

- Interim status meetings and exit meetings with auditees
- Provide copies of reports to auditees and senior management – only after all issues within the report are fully vetted with the auditee and management responses have been received
- Summary presentations to the Audit Committee
- *THOUGHTS FROM OUR PANEL?*

# COMMUNICATING RESULTS

- IIA Standard 2400 - Internal auditors must communicate engagement results.
- *Discussion Topic: How do you handle communicating results that fall outside the risk tolerance established during the planning phase of the engagement?*

## SURVEY RESPONSES

- Immediate, direct communication with auditee
- Include within audit report, including management's response
- Escalate issues to senior management when necessary
- If action plan does not sufficiently address risk(s), inform management and/or Audit Committee to determine if risk is acceptable or if more immediate corrective action is needed
- ***THOUGHTS FROM OUR PANEL?***

# DISSEMINATING RESULTS

- IIA Standard 2440 - The CAE must communicate results to the appropriate parties.
- *Discussion Topic: How have you communicated results that have proven to be effective? (e.g. e-mail, internet, etc.)*

## SURVEY RESPONSES

- Reports are issued electronically in a PDF format (or MS Word format) via email
- Hard copies of the draft report are provided to management; once finalized the report is provided to management in electronic format
- Face-to-face meetings with clients, followed up by formal written reports
- Audit Committee reports are printed and included with materials provided to the Board
- ***THOUGHTS FROM OUR PANEL?***

# OVERALL OPINIONS

- IIA Standard 2450 - When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient reliable, relevant, and useful information.
- *Discussion Topic: Has your internal audit department incorporated an overall opinion into your reports? How have you ensured that the expectations of the appropriate parties have been included in your process?*

## SURVEY RESPONSES

- Overall opinions not issued
- Engagement specific opinions are included in each audit report
- Rank overall results and individual findings
- Categorize audit findings by risk level
- Obtain management responses to overall conclusion and findings during exit conference
- ***THOUGHTS FROM OUR PANEL?***

# OTHER CONSIDERATIONS

Survey  
Results &  
Panel  
Discussion

# CONSULTING ENGAGEMENTS

- Internal audit departments are often asked to perform consulting activities.
- *Discussion Topic:* What, if any, standards do you follow in the performance of these type of activities?

## SURVEY RESPONSES

- Follow the same engagement performance and documentation standards as audits
- IPPF Standards are used
- Do not perform consulting engagements / consulting engagements are rarely performed
- *THOUGHTS FROM OUR PANEL?*

# EFFICIENCY & EFFECTIVENESS

- *Discussion Topic:* What are some best practices for efficient and effective audit departments?

## SURVEY RESPONSES

- Electronic workpapers
- Report templates
- Standardized work programs, templates, and questionnaires
- Pre-audit meetings
- Data mining software (ACL)
- Thorough review & peer review procedures
- Fraud awareness training and procedures
- Flowcharting of processes using Visio
- Tools available from the IIA
- ***THOUGHTS FROM OUR PANEL?***

# INTERNAL AUDIT AWARENESS

- *Discussion Topic:* What do you do to promote internal audit awareness? (e.g. articles in company newsletter, Intranet page, activities during May (internal audit awareness month), etc.)

## SURVEY RESPONSES

- Department internet / SharePoint site
- Periodic notices are included in weekly "bulletin board" that is emailed to all employees
- Publish articles on intranet or in company newsletter
- Host training sessions for all employees
- *THOUGHTS FROM OUR PANEL?*

**QUESTIONS / COMMENTS?**

**THANK YOU!**