



## The Audit Perspective

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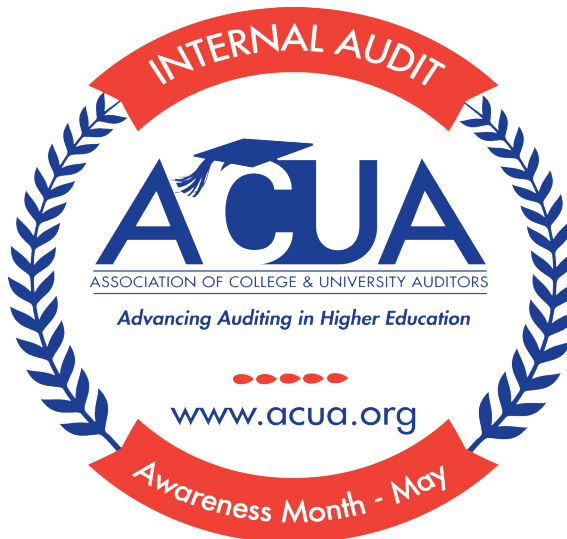
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May is Internal Audit Awareness Month! This month's newsletter will focus on providing you with more information on internal auditing. We hope you find the information in our newsletters useful. If you have any suggestions, questions, or feedback, please contact us at 662-915-7017 or [auditing@olemiss.edu](mailto:auditing@olemiss.edu).

### **What is Internal Auditing?**

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.

### **History of Internal Auditing**

Historical records suggest that internal auditors were being utilized prior to the 15th century. These auditors, employed by kings or merchants, were charged with detecting or preventing theft, fraud, and other improprieties. Control techniques such as separation of duties, independent verification, and questioning (i.e. auditing) to detect and prevent irregularities are thought to have originated during that time. Thus, control assessment and fraud detection have become known as the roots of internal auditing.

As industry and commerce evolved, so did control methods and audit techniques. These methods migrated to the United States from England during the industrial revolution. Managerial control through auditing continued to gain favor up to and through the 20th century.

The internal audit profession evolved steadily with the progress of management science after World War II. Much of the theory underlying internal auditing is derived from management consulting and public accounting professions. With the implementation of the U.S. Sarbanes- Oxley Act of 2002, the profession's growth accelerated as internal auditing became more visible, more respected, and more valued.

### **Benefits of Internal Audit**

Internal audit team member(s) provide an independent review of the organization's operations. Reviews offer the opportunity to internally identify and improve operations before weaknesses are identified by external auditors.

The internal auditors are expected to provide recommendations for improvement in those areas where opportunities or deficiencies are identified. While management is responsible for internal controls, the internal audit activity provides assurance to management and the audit committee that internal controls are effective and working as intended.

An effective internal audit activity is a valuable resource for management and the board or its equivalent, and the audit committee due to its understanding of the organization and its culture, operations, and risk profile. The objectivity, skills, and knowledge of competent internal auditors can significantly add value to an organization's internal control, risk management, and governance processes. Similarly, an effective internal audit activity can provide assurance to other stakeholders such as regulators, employees, providers of finance, and shareholders.

### **Responsibilities of Internal Audit**

- Offer insight and advice
- Evaluate risks
- Assess controls
- Ensure accuracy
- Improve operations
- Promote ethics
- Review processes and procedures
- Monitor compliance
- Assure safeguards
- Investigate fraud
- Communicate results

### **Myths About Internal Auditing**

***Internal Auditors are accountants by training.*** One of the most common misperceptions about internal auditing is that the auditors are all "bean counters" who focus solely on their companies' financial records. There is an obvious grain of truth in this internal audit myth: A solid audit or accounting background can be helpful for a

career in internal audit. But internal auditors commonly address fraud risks, compliance issues, and a myriad of operational issues that are unrelated to accounting, and the auditors' backgrounds are likely to be as diverse as the operations they audit. An accounting degree is not the only path for career success, and these days it's not even the most common path: A recent survey by The IIA's Audit Executive Center indicates that audit executives are now recruiting job applicants with analytical/critical thinking ability, data mining skills, business acumen, and IT skills more often than they seek applicants with accounting training.

***Auditors are nitpickers and fault-finders.*** At the heart of several jokes about internal auditors is the misperception that we are dead set on picking apart processes and ruining the reputations of the people who do the "real work." According to the myth, the auditors are viewed as the group who "bayonets the wounded after the battle is over," distracting management from more important responsibilities.

In reality, of course, internal audit's focus is on major risks rather than on nit-picking details. Audit resources are limited, and when auditors focus too much attention on minor issues, they are limiting the time available for addressing the major risks and controls that are at the heart of internal audit. Any auditor would rather report on a \$6 million cost savings than on a \$6 error!

***It's best not to tell the auditors anything unless they specifically ask.*** This myth can be actively damaging, so it is unfortunate the advice has made its way into more than one "How to Survive an Audit" article. Audit clients are sometimes given this advice by well-meaning friends, but it results in less efficient audits and wastes everyone's time. If auditors believe their clients are purposefully hiding information, whether by omission or commission, they normally will increase the scope of the audit to determine whether other important information has gone unreported. The purpose of internal auditing is to add value and improve an organization's operations, and hiding information is against everyone's best interests.

## **Tools on Internal Audit's Website**

Several useful tools and information can be found on the [Internal Audit website](#):

- A [Self-Assessment](#)
- Information about the [EthicsPoint Hotline](#)
- [Record Retention Guidelines](#)
- [Information on the Audit Process](#)
- [Information on Account Reconciliation Training](#)
- [Newsletter Archives](#)
- [Request an Audit Form](#)