

Effectiveness of Internal Audit in ISO Certification

Theme: “Public Financial Management in a Difficult and Changing Environment”



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PAGBA 2019 3rd Quarter Seminar
L'Fisher Hotel, Bacolod City
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International
Organization for
Standardization

Journey as Internal Quality Auditor



HUGOT NG AUDIT

Sana nonconformity (audit finding) na lang ako....

HUGOT NG AUDIT

Sana nonconformity (audit finding) na lang ako....

Para sasagutin mo na ako sa aking mga findings sa iyo.

BIG IDEA



**Na audit ka
ngunit
kulang!**
**(Sinukat
hindi sapat!)**

ESSENTIAL QUESTION

How can we make the internal audit effective in our management system?





- **Review relevant principles of an effective internal audit**
- **Discuss factors affecting the effectiveness of internal audit**

ISO 19011:2018

Guidelines for Auditing Management System

Scope

Normative references

Terms and definitions

Principles of auditing

Managing an audit programme

- Establishing the audit programme objectives

- Establishing the audit programme

- Implementing the audit programme

- Monitoring the audit programme

- Reviewing and improving the audit programme

- Performing an audit

- Initiating the audit

- Preparing audit activities

- Conducting the audit activities

- Preparing and distributing the audit report

- Completing the audit

- Conducting audit follow-up

- Competence and evaluation of auditors

- Determining auditor competence to fulfil the needs of the audit programme

- Establishing the auditor evaluation criteria

- Selecting the appropriate auditor evaluation method

- Conducting auditor evaluation

- Maintaining and improving auditor competence

- Annex A (informative) Guidance and illustrative examples of discipline-specific knowledge and skills of auditors**

- Annex B (informative) Additional guidance for auditors for planning and conducting audits**

DEFINITION

INTERNAL AUDIT

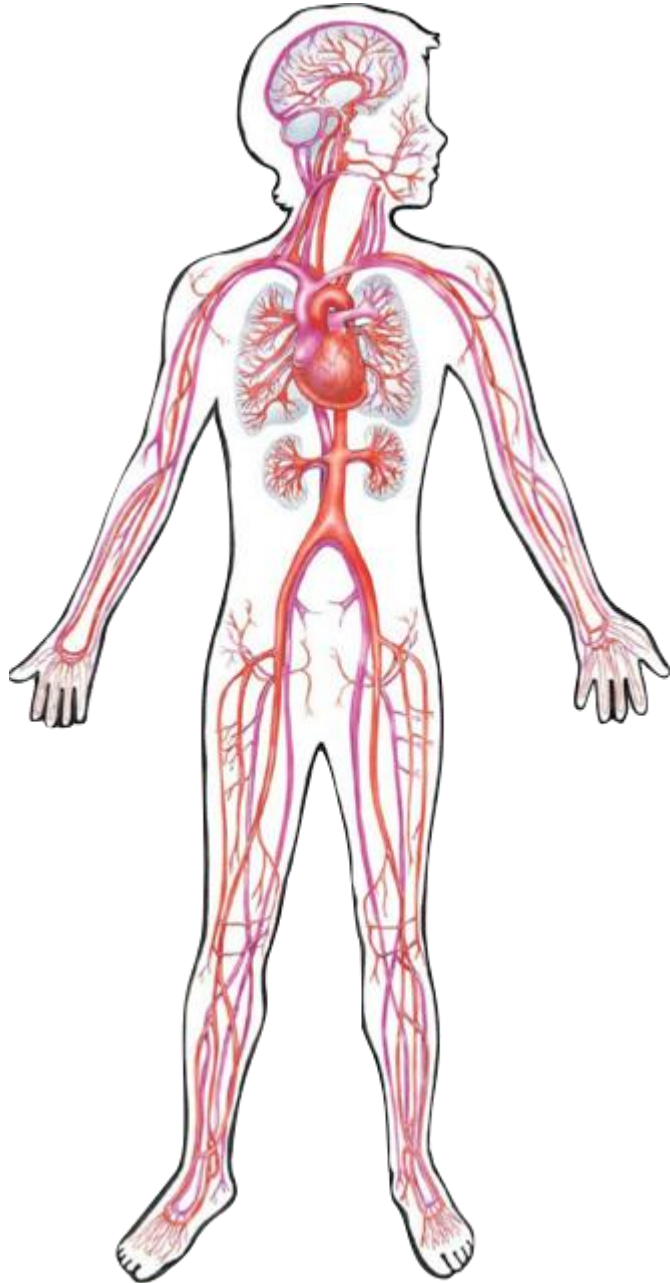
Systematic, independent and documented (verification) process for obtaining audit evidence and evaluating it objectively to determine the extent to which the audit criteria are fulfilled
by ISO 19011:2018



Why we conduct an internal audit?



- check before the customer
- remind us of the way of doing and make sure that problems are avoided
- monitor conformance/compliance to any standards or established system within the organization
- evaluate the management system that can be used in action plans
- mandatory requirement of any management system



An effective
internal audit is
the “bloodline”
of management
system in an
organization

FACTORS AFFECTING AN EFFECTIVE INTERNAL AUDIT

1. Institutionalized organizational culture

Organizational culture is defined as the underlying beliefs, assumptions, values and ways of interacting that contribute to the unique social and psychological environment of an organization



13 CULTURAL ATTRIBUTES

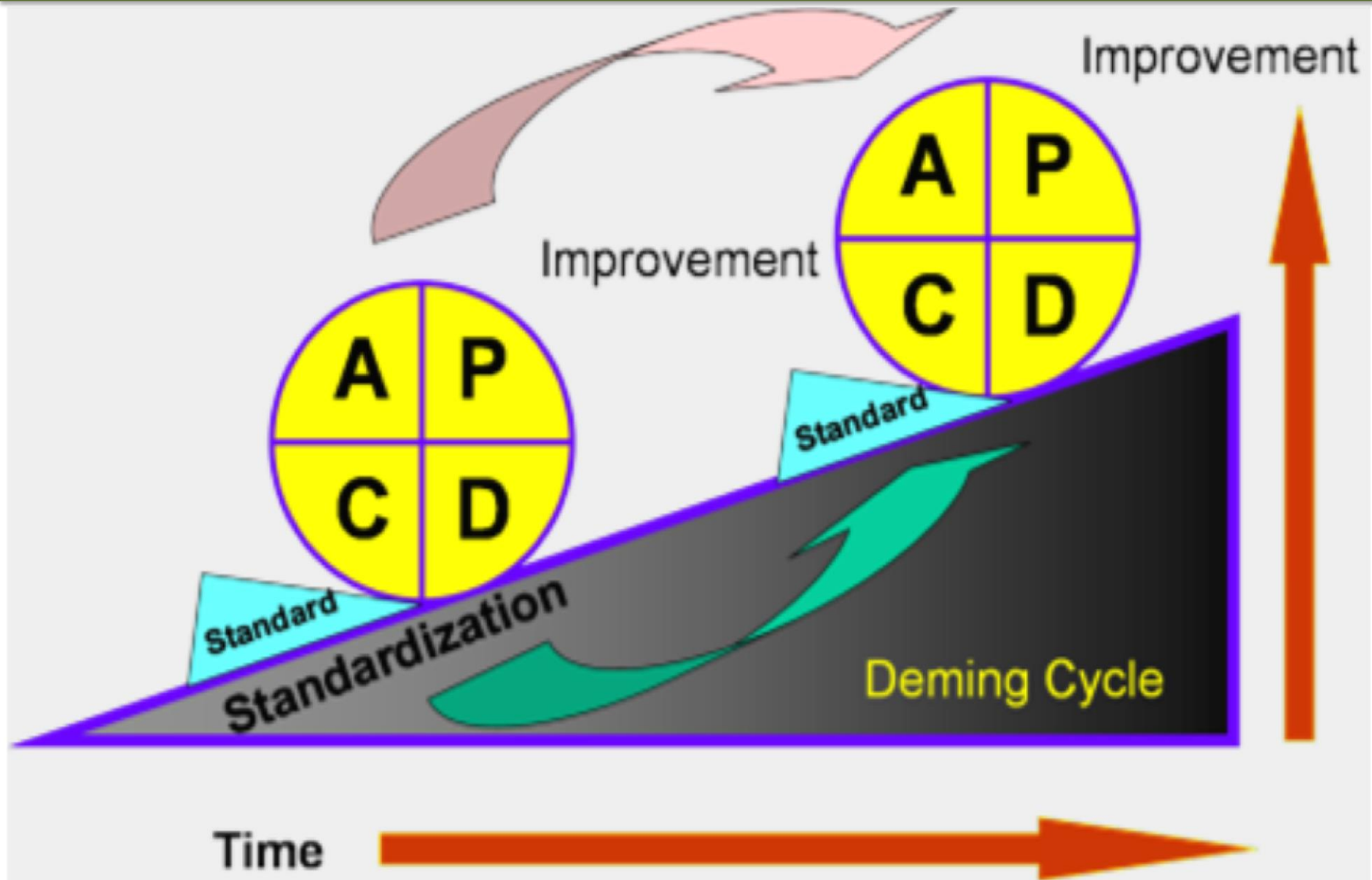
- *Respect/Fairness*
- *Trust/Integrity*
- *Change/Adaptability*
- *Results Oriented*
- *Teamwork*
- *Employee Engagement*
- *Responsibility/Accountability*
- **Excellence**
- **Continual Improvement**
- **Transparency**

CONTINUAL IMPROVEMENT

PDCA Framework

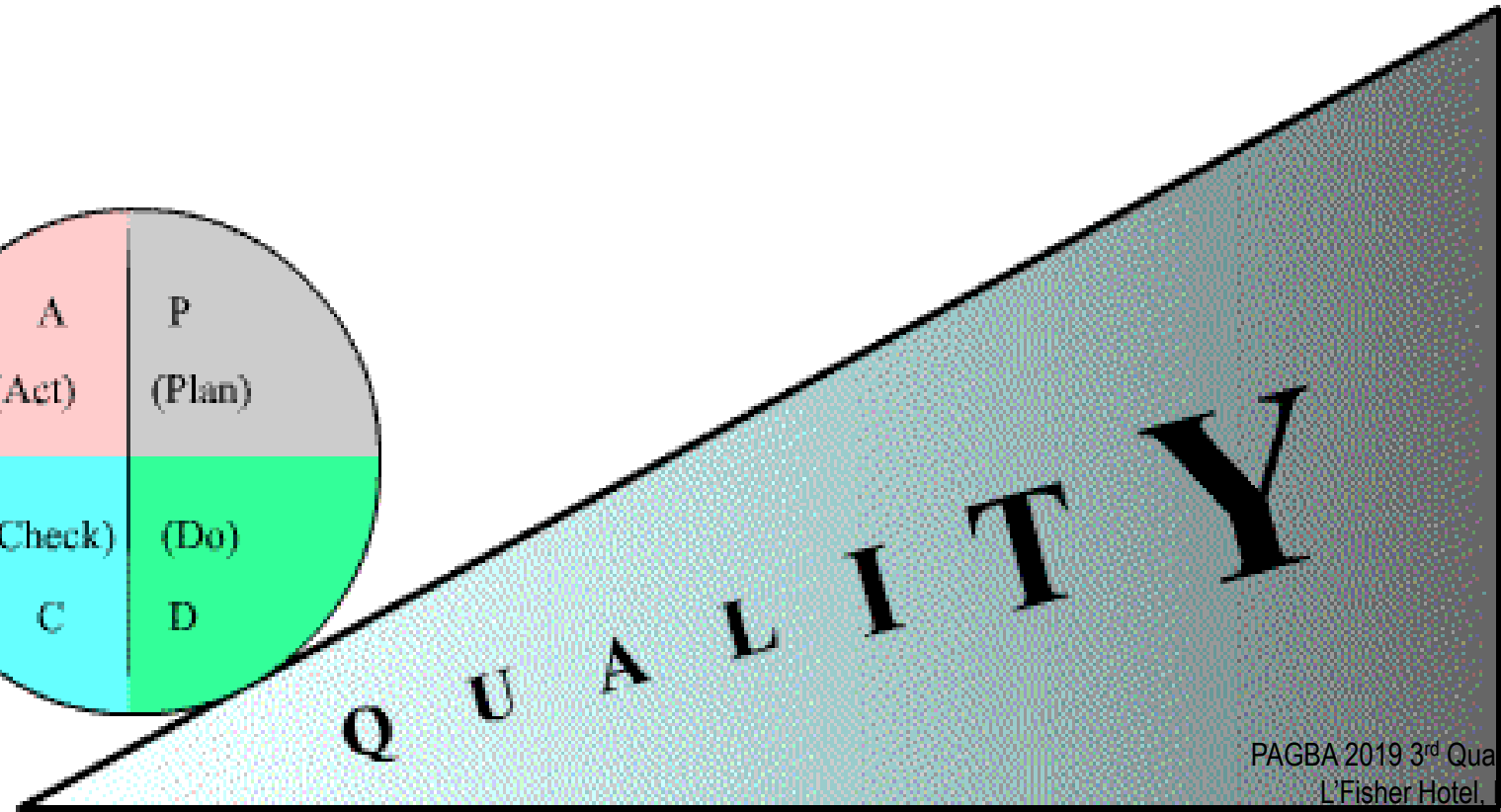
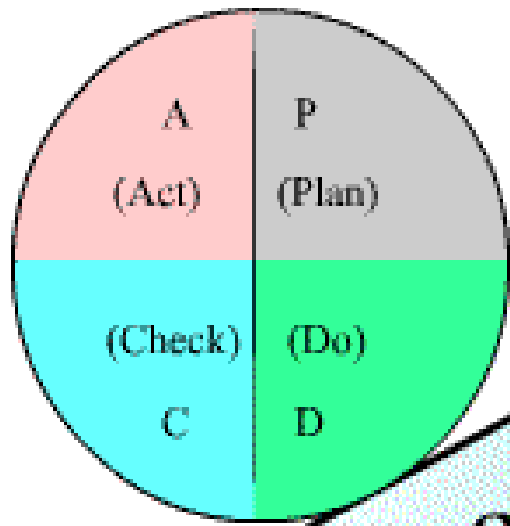


The Wheel of Continuous Improvement



The Deming (PDCA) Cycle

- ▶ play
- stop
- » step
- ◀ rew



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If you want to improve, you must admit your mistakes, smart enough to profit or learn from them, and strong enough to correct them.

FACTORS AFFECTING AN EFFECTIVE INTERNAL AUDIT

2. Adhering to internal audit principles

- Core principles should be present and operating effectively
- 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



<https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Core-Principles-for-the-Professional-Practice-of-Internal-Auditing.aspx>



Source: *How to Conduct a Quality Internal Audit, Seetharam Kandappa*, IASBA 2019 3rd Quarter Seminar
<https://www.smartsheet.com/operational-audit-process>
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Audit Principles

INTEGRITY

Concept of consistency of good actions, values, methods, measures, principles, expectations, and outcomes with honesty, diligence and responsibility

FAIR PRESENTATION

The obligation to report truthfully and accurately;
Audit findings, conclusions and reports should reflect truthfully and accurately the audit activities *(No personal issues)*

Audit Principles

DUE
PROFESSIONAL
CARE

How an auditor (image) conducts himself during an audit

Denoted the expectation of adding value to the client by providing solutions instead of problems

CONFIDENTIALITY

Security of information;

Prudence in the use and protection of information acquired in the course of their duties; information should not be used inappropriately for personal gain by the auditor or audit client or manner detrimental to auditee's interest

Audit Principles

INDEPENDENCE

The basis for the impartiality of the audit and objectivity of the audit conclusions;

Auditors should be independent of the activity being audited (*size, qualified persons*)

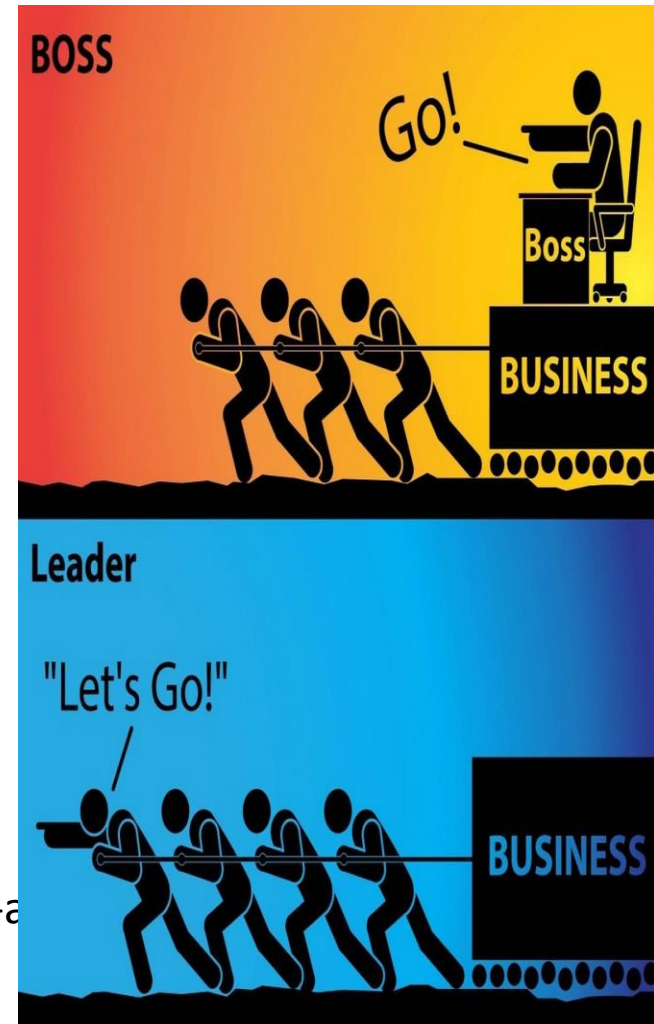
EVIDENCE-BASED APPROACH

*The rational method for reaching reliable and reproducible audit conclusions in a systematic audit process; audit evidence is verifiable; based on samples (and sampling) (*negligence*)*

FACTORS AFFECTING AN EFFECTIVE INTERNAL AUDIT

3. Commitment of a Leader

Active participation of Management and show commitment for continual improvement



Source: <https://www.quality.org/knowledge/leadership-a-90012015>

FACTORS AFFECTING AN EFFECTIVE INTERNAL AUDIT

4. Effective audit program

Audit program is an arrangement for a set of one or more audits planned for a specific time frame and directed towards a specific purpose



Source: ISO 19011:2018 International Standard

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Effective Audit Program

Provides information on the on the objectives, scope, its size, audit method, frequency, proper timing, allocation of work among team members and the estimation of time within which it should complete the work.



<https://www.toppr.com/guides/accounting-and-auditing/tools-of-auditing/audit-programme/>

FACTORS AFFECTING AN EFFECTIVE INTERNAL AUDIT

3. Competence of auditors

The ability of selected auditor to conduct an audit, being a set of defined knowledge, skills, and attitudes/behavior.



Qualification of Internal Auditors

- Education – At least college graduate
- Experience – at least one year in the organization
- Position - ??????
- Training – mandatory internal audit Training



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AUDIT

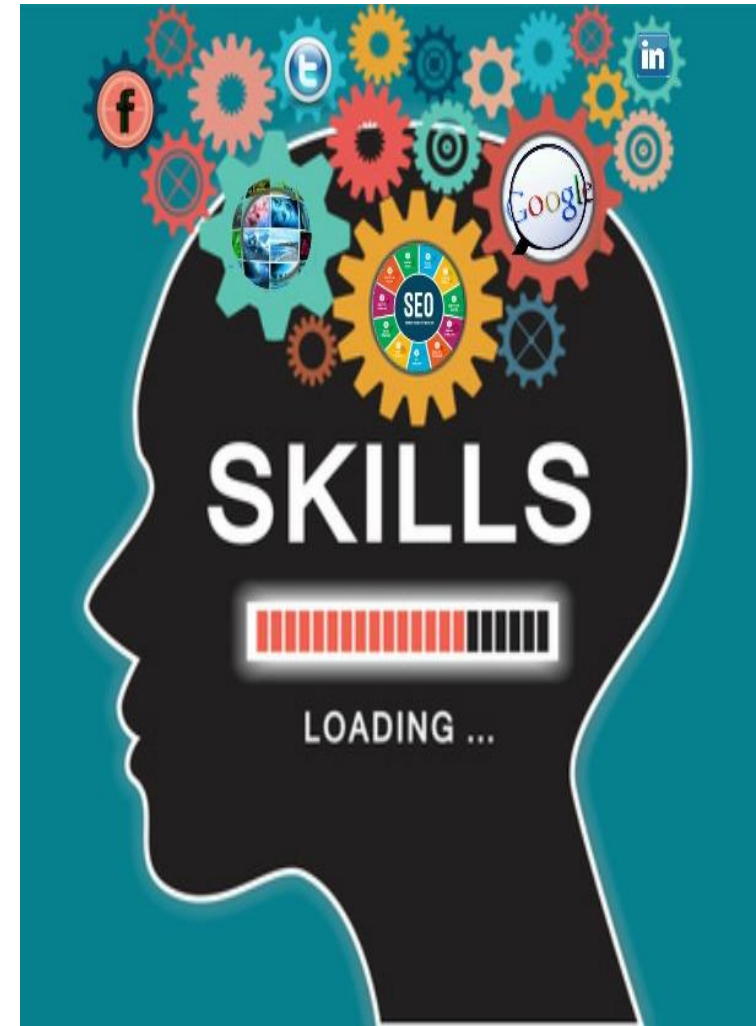
Basic Knowledge of Internal Auditor (ISO 19011:2018)

- Nature, complexity, products/services and processes of auditees
- Principles, Technical concepts, Methods of auditing
- Management system discipline
- Types and level of risks and opportunities
- Regulatory and statutory requirements



Skills of Internal Auditors

1. Listening
2. Interpersonal
3. Analytical/critical thinking
4. Problem Solving
5. Communication
6. Decision Making



Attitudes of Internal Auditors

1. Inquisitiveness
2. Objectivity
3. Fairness
4. Integrity
5. Commitment
6. Open minded
7. Observant
8. Diplomatic
9. Tenacious



AUDITOR

FACTORS AFFECTING AN EFFECTIVE INTERNAL AUDIT

4. EFFECTIVE ACTIONS ON IDENTIFIED RISK IN INTERNAL AUDIT

Risk – uncertainty of
desired results

-proactive in addressing
failure in internal audit



MAINTAINING AND IMPROVING AUDITOR COMPETENCE

- Calibration
- Evaluation
- Feedbacking
- Continual professional development



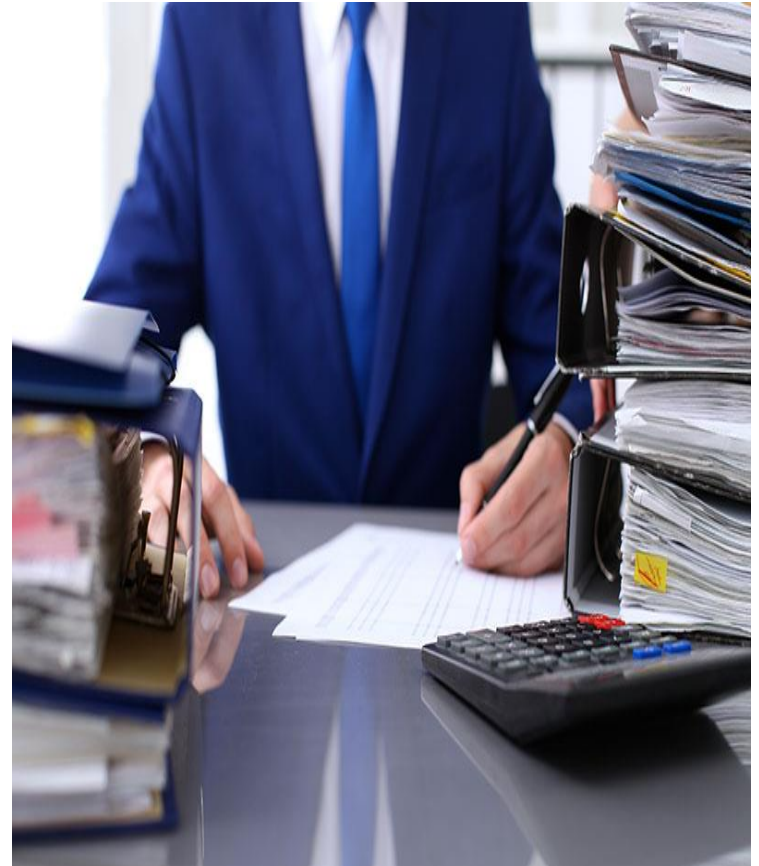
AUDITOR EVALUATION METHODS

1. Review of records – to verify the background of the auditor
2. Interview – to evaluate desired professional behaviour and communication skills, verify information and test knowledge
3. Observation – to check the application of knowledge and skills
4. Examination – to evaluate cognitive skills
5. Post Audit Review – to gather information on the auditor performance during the audit, identify strengths and opportunities for improvement

FACTORS AFFECTING AN EFFECTIVE INTERNAL AUDIT

5. APPROPRIATE AUDIT METHOD

- sampling
- “an inch deep but a mile wide” or “an inch wide but a mile deep”



FACTORS AFFECTING AN EFFECTIVE INTERNAL AUDIT

5. PROPER CONDUCT OF INTERNAL AUDIT

- Realization of audit objectives
- Coverage
- Minimal issues
- Timeliness



FACTORS AFFECTING AN EFFECTIVE INTER INTERNAL AUDIT

6. COMPREHENSIVE INTERNAL AUDIT REPORTS

- agreements with auditor and auditee
- analysis of audit findings (e.g. recurring, clause, departmental and etc)
- conclusions/recommendations



FACTORS AFFECTING AN EFFECTIVE INTERNAL AUDIT

7. ACTIONS OF MANAGEMENT ON INTERNAL AUDIT FINDINGS

- Commitment
- Direction



FACTORS AFFECTING AN EFFECTIVE INTERNAL AUDIT

8. CLOSURE OF FINDINGS WITHOUT UNDUE DELAY

- Monitoring of status
- Effectiveness of the corrective actions



**Work together in making the
Internal audit process an
effective one!**

THANK YOU!



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- » step
- ◀ rew

