

INTERSECTING ROLES

Fostering Effective Working Relationships Among
External Audit, Internal Audit, and the Audit Committee



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March 2015

Audit committees at publicly held companies are responsible for oversight of the internal audit function as well as oversight of the independent external auditor. The Center for Audit Quality (CAQ) and The Institute of Internal Auditors (The IIA) sought to explore how these three vital players might optimize their intersecting roles and responsibilities with respect to risk management and external audit's use of the work of others.

In November and December 2014, the CAQ and The IIA, in collaboration with its Audit Executive Center, co-sponsored three roundtable discussions that drew internal auditors, external auditors, and audit committee chairs. These meetings were designed to identify major challenges in risk management and the financial statement audit faced by these stakeholders and develop ways to leverage and strengthen their intertwining relationships to meet these challenges. We were not disappointed.

This summary is intended to advance consideration of the issues discussed at the roundtables and associated successful practices that were shared by attendees. We hope this paper will serve as a springboard for professional development programs that promote the sharing of leading practices. We encourage further dialogue to identify additional ways in which internal auditors, external auditors, and audit committee chairs can better communicate and leverage each other's work where appropriate to achieve their objectives.

Our thanks to all of the attendees who were generous with their time and thoughts in making the roundtables a success. (The Appendix contains a list of the participants for each event.) Their insights provide value not only to publicly held companies, but also to private companies, nonprofit organizations, and government agencies. We look forward to their support as we continue to work on the issues raised in the roundtables.

A handwritten signature in black ink that reads "Cindy Fornelli".

Cindy Fornelli
Executive Director
Center for Audit Quality

A handwritten signature in black ink that reads "Richard F. Chambers".

Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA
President and CEO
The Institute of Internal Auditors



EXECUTIVE SUMMARY

In the fall of 2014, the CAQ and The IIA co-sponsored three roundtable discussions in Houston, San Diego, and Kansas City. Attended by internal auditors, external auditors, and audit committee chairs, the roundtables provided the different parties an opportunity to talk about their roles and responsibilities, their major challenges, and leading practices.

The overall aim was to explore how the three parties could leverage and strengthen their nexus of relationships to improve risk governance and external audit¹ at the organizations they serve. The candid and robust discussions provided insight on how this objective could be accomplished, which should serve other organizations as they seek to improve the capabilities of these three stakeholders within the constructs of professional standards. The report provides a summary of the perspectives of the roundtable attendees.

The discussions can be broadly divided and characterized by three questions that were raised and answered:

- How can enterprise risk management (ERM) be introduced at companies where it doesn't exist, and be nurtured in organizations where ERM structures and processes are in place?
- How can internal auditors and external auditors better work together for a more productive and

efficient external audit within the constructs of the requirements of the U.S. Public Company Accounting Oversight Board (PCAOB)?

- How can audit committees, tasked with oversight of the internal and external audit functions, help foster communication with internal auditors and external auditors to build more effective working relationships that enhance the capabilities of all three players?

LAUNCHING AND CULTIVATING ERM IN THE ORGANIZATION

The ERM objective is widely embraced by audit professionals and, in an environment of growing risk, the adoption of ERM has increased in importance. But while ERM has progressed far in many organizations, at some companies — especially smaller ones — initiating and implementing ERM is still a challenge.

Senior management ultimately owns the identification and mitigation of risk, but the recommendation for ERM can — and often does — come from other stakeholders, such as the full board of directors (board), the audit and/or risk committee, or internal

¹ External audit is used in this report to refer to the integrated audit of internal controls over financial reporting (ICFR) as well as the financial statements, as described in Auditing Standard No. 5 http://pcaobus.org/Standards/Auditing/Pages/Auditing_Standard_5.aspx.

audit. Commitment at the highest levels is often communicated by the appointment of a “risk champion” to inspire and facilitate the adoption and stewardship of ERM.

External audit has an interest in ERM because of its value in strengthening entity-level controls in an organization. This interest is often reflected in the encouragement external audit provides to companies in ERM adoption.

USE OF INTERNAL AUDIT WORK IN THE EXTERNAL AUDIT

Over the last several years, PCAOB inspection reports have been critical of the external auditors’ assessment of the effectiveness of companies’ internal control over financial reporting (ICFR). The PCAOB has noted situations in which the external auditor has used the work of internal auditors when, in some cases, the inspectors believed that the external auditor did not have a sufficient basis for using that work.

To address PCAOB concerns, the external auditor is requiring more detailed documentation from internal audit than they had in previous years, and, consistent with the standards, not accepting internal audit work in some of the high-risk areas in the assessment of the effectiveness of ICFR. According to attendees, the October 2013 release by the PCAOB of *Staff Audit Practice Alert No. 11: Considerations of Audits of Internal Control Over Financial Reporting* resulted in tension between internal and external auditors.

Communication earlier in, and more often during, the audit process about what the external auditor needs in order to use the work of internal audit’s testing of controls, improved training of internal audit, and discussions with the audit committee can result in better coordination.

FOSTERING EFFECTIVE RELATIONSHIPS AMONG THE THREE GROUPS

Successful organizations will recognize the importance of building and sustaining effective relationships among the audit committee, those responsible for the internal audit function, and the external auditor. There are efficiencies and enhancements that can be realized in risk assessment, risk management, and in the performance of the external audit, while respecting each stakeholder’s roles and responsibilities in accordance with professional standards. Both formal and informal channels of communication are critical. Because they are charged with oversight of both the internal and external audit functions, audit committees are instrumental in determining the amount of support and resources that each group receives.



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Audit committees sit at the hub of the internal and external auditors and are therefore positioned to maximize the roles of each party where there are intersecting responsibilities. Against this background, roundtable participants had a candid and robust conversation about their roles and responsibilities, their key challenges, and leading practices.

They described their interaction with one another, and they discussed how those relationships could be improved. The aim was to help companies better assess how the three parties might more effectively leverage their capabilities to improve risk governance and the use of the work of others in the external audit at their organizations.

Over the course of the discussions, three key themes emerged:

1. Leverage stakeholders' relationships to optimize ERM.
2. External audit: challenges for the internal auditor-external auditor working relationship.
3. Communication and relationship building among external audit, internal audit, and audit committee.

This summary presents insights that are grouped under these three major themes. Insights described in this paper can help develop leading practices and may help serve as a springboard for professional development programs.

1. LEVERAGE STAKEHOLDERS' RELATIONSHIPS TO OPTIMIZE ERM

“ Every financial statement audit starts with thinking about risk...Management, internal audit, and external audit all start at the same place, which is understanding the business, and then the risk in the business. ERM is a great way to do that. It's the place where everybody can come together and begin the process of thinking about risk. ”

These thoughts expressed by an external auditor at one roundtable were continually echoed by other attendees, as they encouraged an approach to risk that was entity-wide and holistic, rather than siloed and transactional. The increased level of interest in ERM adoption and development to manage uncertainty in a company's operations is reinforced by a risk environment characterized by:

- Fraud threats from cyber risk, exacerbated by widespread use of mobile devices and cloud computing.
- Expanding regulatory demands from the passage of new legislation and additional rulemaking for existing law.
- Globalization, heightened and accelerated by social media.
- Continuing evolution of new business relationships, often including heavy use of third parties for critical business needs.

These conditions make implementing ERM more important than ever. Yet while the ERM objective itself evoked little dissent from participants, their comments on adoption and execution reflected a wide range of challenges and successes. The majority of attendees were optimistic about ERM, and reports of progress far outnumbered those of setbacks. But even where successfully implemented, challenges continued; some participants said they had to go through several iterations of ERM before they got things right.

The status of ERM in an organization naturally affects how key stakeholders work together, as well as the frequency and nature of their communications. Risk management may be strong in many departments, groups, and locations, but still remains inadequate at the entity level. Much of the effort will therefore focus on taking existing risk management strengths and leveraging them into an ERM structure. As one internal auditor put it:



“ Our company has so many siloed risk assessment activities. Senior management looks at that and says, ‘We’ve got risk management going on throughout the organization, there’s no way we’re not covered.’ But there are risks that are over-covered and risks that are under-covered when you approach risk management that way. How do you aggregate those risks and what are you missing?...You don’t know until you bring it all together into full ERM. ”

CULTIVATING ERM: RISK CHAMPIONS, FACILITATORS, AND STEWARDS

One consistent theme of the roundtable discussions was the key role of a “risk champion” — a person or group that recognizes the necessity of robust ERM and is determined to drive it through the organization. From their spark, the ERM flame can be fanned and maintained by others in the company who may assume different roles over the course of ERM’s introduction, development, and stewardship.

Chief Executives

CEOs are “ultimately responsible and should assume ownership” of risk management.² Some attendees cited examples where the CEO was the risk champion as well. There was a strong consensus that, whether the CEO leads the charge or lends

² Enterprise Risk Management — Integrated Framework, COSO, September 2004, http://www.coso.org/documents/coso_erm_executivesummary.pdf.

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his or her support, gaining the top executive's commitment for robust ERM was a necessity. That commitment isn't always easy to obtain, as an internal auditor noted:

“ The reason implementing ERM can take so long, sometimes several years, is that it can be difficult for some on the senior management team to see its actual value relative to the effort and cost...For some CEOs, you have to tell them exactly what the investment is going to be, and what they're going to get for it. ”

With that concern in mind, ERM progress should be measured and assessed to motivate staff and to ensure that it is meeting stated goals. One participant expanded on that objective: “When you set performance goals for employees that measure progress against something, it makes a world of difference...If you compensate somebody that way, you'll be surprised at how much attention they give it, because they realize it's an important function of the job.”

Board of Directors

The U.S. Securities and Exchange Commission (SEC) requires disclosure about the board's role in the company's risk management process. The board must report whether oversight of risk is a full board responsibility or assigned to one of its committees (e.g., the audit committee or a separate risk committee).³ The board can be a prime mover in ERM given its central role in corporate governance,

and it being composed of members who often have strong exposure to risk management. An internal auditor commented:

“ I started with the company a couple of years ago...and it did not have an ERM function. The board thought internal audit was the best place to start it, since we had the skills around ERM. Currently we [internal audit] oversee the process and facilitate it, but management owns the identification and mitigation of risks. ”

Board Committees

Attendees described various roles and levels of participation by the audit committee in ERM, usually depending on the background and experience of the audit committee members. Some audit committees were early champions of ERM and now bear major responsibility for keeping it buoyant. But as indicated earlier, in other organizations, especially smaller ones, both the inspiration and push for implementation for ERM came from other sources.

In larger organizations, a risk committee may have been created on its own or carved out of the audit committee. Although this structure is now required for large banks under the Dodd-Frank Wall Street Reform and Consumer Protection Act and is in place at many companies, having the two committees can raise issues about the division of responsibilities for risk oversight, including those for ERM:

“ About a year-and-a-half ago we split the risk committee from the audit committee, and now it's the risk committee that receives reports on ERM. We're still going through

³ SEC, Proxy Disclosure Enhancements, Final Rule, p. 40 <http://www.sec.gov/rules/final/2009/33-9089.pdf>.

some growing pains and trying to figure out what should be reported to each committee. Certainly, if there is a problem, as some others here have indicated, it does come back to the audit committee for a close monitoring for remediation efforts.”

As a practical matter, and because of SEC interest in the board’s role in the risk management process, the question was raised whether ERM, given its importance, should be assigned to the full board rather than one of its committees. One participant noted that, here too, the lines of responsibility may not always clearly be drawn:

“Where ERM resides tends to come down to resources. Often the board looks to the audit committee and asks, ‘What are you doing with ERM?’ And the audit committee looks back to the board and says, ‘Well, isn’t this a board responsibility?’ And then the board says, ‘Why don’t you take it, audit committee?’”

One way of making ERM responsibility more explicit is through the organization’s bylaws and committee charters. One participant noted that ERM has to compete for attention in the audit committee’s charter, where the focus is often on the external audit and internal audit.

Chief Finance Executives

In terms of risk, the top concern of CFOs is financial reporting. To the extent they see ERM as key to ensuring the integrity of financial reporting, CFOs are likely to champion it — especially if they don’t see that leadership elsewhere in the organization.



Internal Audit

Internal audit is often the group with the greatest level of risk assessment expertise. Moreover, internal auditors have wide knowledge of the policies, processes, and procedures of the organization. At the same time, however, internal auditors were careful to note that internal audit’s core role is to provide assurance on the effectiveness of risk management — not to identify, prioritize, and manage risk. A chief audit executive at a large company said:

“The [ERM] process is driven by me, but also by our senior vice president of strategy...We balance each other out and present our ERM plan to the organization as something very holistic, not just an audit thing...It seems to work pretty well. We do assign risks back to management and each identified risk is owned by a corporate officer of high stature who’s required to report on it on a regular basis.”

Some companies will have an ERM assessment process separate from the internal audit risk assessment process. Other companies will perform the ERM and internal audit risk assessments at the same time, and then internal audit will develop its own audit plan. Coordination of ERM with internal audit plans is important for ERM success.

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Interestingly, the point was made that adopting ERM can improve internal auditing:

“ We implemented ERM when the internal audit process didn’t have a lot of juice, energy, and credibility. We changed direction and focus as driven by ERM, and people were saying, ‘That was an interesting audit... how’d you find that?’ So the change in the internal audit process driven by ERM made believers out of management, and the audit committee too. ”

External Auditors

Opinions varied significantly among participants of the role of external audit in ERM. Some internal auditors noted that external auditors see a robust enterprise risk assessment and monitoring process as a key entity-level control, a view some external auditors echoed. Participants noted that the external auditor may play a key role by sharing perspectives with the audit committee, because their widespread exposure to the processes of so many organizations expertly positions them to discuss ERM knowledgeably. An internal auditor commented:

“ I think it’s beneficial to have the external auditors share perspectives with the audit committee as to what their responsibility is for ERM, and how it differs from just the risk assessment that internal audit is doing as part of their annual plan. Having the external auditors come in and say, ‘This is what we see as a leading practice, this is how it’s different,’ can be highly useful. ”

But other internal auditors and audit committee chairs said their external auditors played little or no role in supporting ERM. One participant said their external auditor remained focused on the financial aspects of the audit, in a way not necessarily complementary to ERM.

2. THE EXTERNAL AUDIT: CHALLENGES FOR THE INTERNAL AUDITOR-EXTERNAL AUDITOR WORKING RELATIONSHIP

A major topic at the roundtables was the impact of PCAOB *Staff Audit Practice Alert No. 11*. In a section titled “Using the Work of Others,” the alert discusses the use by external auditors of the work of internal auditors in performing the financial statement audit.⁴ Attendees discussed and debated:

- To what extent the alert has changed how external auditors view using the work of internal auditors.
- How these changes have altered the relationship between external and internal auditors.
- How communication between the two auditor groups could be enhanced for a more effective and efficient external audit.

⁴ The extent to which the external auditor can use the work of others depends on (1) the risk associated with the control being tested; and (2) the competence and objectivity of the persons whose work the auditor plans to use. (PCAOB *Staff Audit Practice Alert No. 11*, pp. 29–32, October 2013, http://pcaobus.org/Standards/QandA/10-24-2013_SAPA_11.pdf).

DECREASING EXTERNAL AUDITOR WILLINGNESS TO USE INTERNAL AUDITOR WORK

A significant portion of participants believed that there has been a substantial change in the PCAOB's posture on the use of internal audit's work. One external auditor said, "So far as reliance is concerned, this Fall it seems like the nature and extent of the testing of internal audit has been questioned more than ever." Another external auditor described the situation this way:

“ The PCAOB is looking for a lot of granularity in processes: who looks at the control, when do they look at it, what are they looking for, what kind of notes are they taking...that type of information. For us to use the work of internal audit, we've got to make sure the company has strong systems and there's the level of detail we need...I think the messaging here to external auditors is that, just because internal audit does something, it doesn't mean you can use it. ”

Various participants noted that the level of risk associated with an area is a key consideration. Some external auditors have become more reluctant to use internal auditor work for high-risk areas. Indeed, one external auditor stated flatly: "I will be very candid. If it's a high-risk area, we will not use the internal auditor's work."

External auditors also perceive that the PCAOB was taking a more exacting stand on external



audit evidence. In addition, some external auditors thought the PCAOB placed too much weight on whether the work had been done by the external auditor itself, and too little on the experience and qualifications of the auditor, whether internal or external. One external audit partner commented that it sometimes seemed that the PCAOB inspectors were more comfortable accepting the work of an external auditor with two years' experience than an internal auditor with 12 due to a perceived lack of independence and objectivity on the part of the internal auditor.

A MORE DIFFICULT RELATIONSHIP BETWEEN EXTERNAL AND INTERNAL AUDIT

Some expressed the opinion that PCAOB requirements were increasing tension between external and internal audit. Remarkd one internal auditor:

“ I was on the external audit team 10 years ago, and I saw the relationship between internal audit and external. It was very, very good. And when I came back into internal audit 10 years later, that relationship was not the same...I would say that it's been strained. ”

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Another internal auditor described a recent experience in assisting external auditors:

“ [In the past] we did the work, and external audit relied on it. But now for some of those things external audit has to have the direct assistance model.⁵ That’s a big change, and it’s made it tougher to help them. It’s also caused resentment between our teams...We need to coordinate and communicate better. ”

MORE DOCUMENTATION

Both external and internal auditors expressed their belief that the PCAOB had become more stringent in its documentation requirements. External auditors said they were including much more of the information given to them by internal auditors in their working papers. An external auditor commented,

“ This year, we’re having to be very detailed at documenting at the attribute level. Documentation has become an important point of discussion for external and internal audit teams as they seek to make the financial statement audit more efficient and less costly. ”

Several external auditors noted that they have shared templates that internal audit can utilize.

⁵ See AU 322.27 *Using Internal Audit to Provide Direct Assistance to the Auditor* at http://pcaobus.org/Standards/Auditing/Pages/AU322.aspx#ps-pcaob_9e866820-079b-43f4-a9be-7298c11eb5da.

MANAGEMENT DISSATISFACTION

There has been pushback by company management upset about what they perceive as changes in the audit environment and the requirements surrounding the external auditor’s ability to use the work of internal audit. Participants said that management was concerned about “audit fatigue,” i.e., company staff constantly having one set of auditors or another in its offices, often asking for the same documents. An internal auditor said:

“ Management is having a hard time [with the reliance issue]. They’re thinking ‘internal audit was here, now external audit is... well, I gave them all that. I know they have copies of it. Why do they have to ask for it again? Why am I having to answer these questions again?’ Management is really pushing back on this. ”

Internal auditors were also worried that management didn’t understand the operational and budgetary constraints of the external audit. One internal auditor said:

“ My current angst is management’s understanding of what reliance should be... The relationship between internal and external audit is getting more on the same page. We’re making progress there. But there are significant budget pressures, and there’s a false understanding that any increase [in fees] proposed by the external auditor can just be washed away by getting more reliance from internal audit. It just doesn’t work that way. ”

ANNUAL NORTH AMERICAN PULSE OF INTERNAL AUDIT

The North American Pulse of Internal Audit survey was completed in November 2014. Those respondents in publicly traded companies that reported experiencing somewhat or greatly increased scrutiny since 2013 noted the following:

		Decrease greatly	Decrease somewhat	Stay the same	Increase somewhat	Increase greatly	TOTAL
Internal audit's hours providing direct assistance to external audit	Count	2	5	39	46	10	102
	% by Row	2.0%	4.9%	38.2%	45.1%	9.8%	100.0%
External audit fees	Count	0	6	30	58	8	102
	% by Row	0.0%	5.9%	29.4%	56.9%	7.8%	100.0%

Survey respondents were also asked to assess the impact of external audit's increased scrutiny of their work. Among respondents from publicly traded companies experiencing increased scrutiny from external audit since 2013, 55 percent said they anticipate an increase in the number of hours that their internal audit functions will provide direct assistance to external audit while 38 percent expect the number of hours devoted to external audit assistance to stay the same. In like manner, 65 percent of these respondents indicated that they expect an increase in external audit fees while 29 percent expect such fees to remain level.

If these projections hold true, a large number of internal audit functions will be spending more time on work for the organization's external auditors and boosting fees in the process.

Source: The Institute of Internal Auditors

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Echoing this complaint, another internal auditor said:

“ Management doesn’t understand the amount of time it takes to get the quality of internal audit’s work to a level that external audit can use it. They also don’t understand the value internal audit provides in reducing audit fees, because external audit does place a lot of reliance on our work. It’s been a continual struggle, and I’ve had pressure from management to reduce our test work. But I know our external audit team will say, ‘If you do less, we can’t use it.’ ”

ROLE OF THE AUDIT COMMITTEE

Audit committee chairs indicated they took different tacks in coordinating internal audit hours for the external audit. One audit committee chair said that, while the audit committee pushes management and internal audit to be more efficient, it’s up to them to work out with external audit how the allotted hours could be best used. But another audit committee chair described a different approach: sitting down separately with both internal audit and external audit, and then bringing them together to think through internal audit areas of responsibility that may support external auditors in order to help avoid duplication of effort. Ultimately, it’s the audit committee’s decision how much of internal audit’s time and resources should be devoted to the external audit.

STRATEGIES FOR IMPROVING AUDIT EFFICIENCY

Attendees were eagerly exploring potential solutions to maximize the contribution of internal audit to the external audit. Here’s how one internal auditor

described the effort to coordinate with external audit to improve audit efficiency:

“ We start talking early, and we meet weekly. We work as one team, and we share our plan and our timelines. We make sure our samples, our test guidance, are in line with their methodology. We do our best to make sure that whatever work we’re going to generate, before we ever start it, is going to meet external audit’s needs. We understand what they can use and what they can’t. We understand what the high-risk areas are that they have to test, and the kind of work it takes to do that. We let them into our SharePoint site where we keep our documentation so it flows efficiently. ”

Using a Facilitator to Lessen Audit Fatigue

An internal auditor discussed the helpful role a facilitator can play in managing the audit burden that company staff may experience:

“ The best thing we’ve done is to have a central facilitator so [company staff] feel like they’re dealing with one person. ERM’s a little bit different in our organization in that we have a separate person to facilitate it. But most of our external compliance reviews are driven through a single facilitator. Most of our external audit work, be it interim or year-end testing, is driven through one person too. I think that lessens the burden. ”

Better Coordination Between the External Auditor and Internal Auditor

Participants discussed several specific tactics that external audit and internal audit may want to consider to help improve audit efficiency:

- Coordinating walkthroughs between internal audit and external audit to be sure they are not done twice.
- To the extent possible, having internal audit use the same templates as external audit, so external audit does not have to spend as much time reformatting.
- Discussing the allocation of work to be performed by the internal auditor for use in the external audit — and what the external audit team will do on its own — early in the process to avoid having internal audit perform work that will have to be duplicated by the external auditor because of the associated level of risk or a PCAOB requirement.

Data Analytics

Not surprisingly, there were varied opinions about the usefulness of data analytics. Participants believed the major challenge was the decentralization of data throughout organizations, which hampers easy gathering and analysis. Some internal auditors said their efforts at data analytics had not succeeded to the point where internal audit could be routinely used to identify audit exceptions. But others said their data analytics programs had been fruitful, especially in the areas of accounts payable and human resources.

INTERNAL AUDIT: POSSIBLE STEPS FOR ADDRESSING PCAOB REQUIREMENTS

1. Accept that there will be changes that affect your organization.
2. Get organized – know the depth and breadth of your existing control documentation.
3. Monitor the PCAOB for reports and releases.
4. Get engaged with the external auditors.
5. Have a planning discussion to determine the changes necessary to meet the external auditor's documentation requirements.
6. Have an educational discussion to communicate with staff how the documentation requirement changes will affect their work.
7. Work within your organization to make whatever adjustments needed in your documentation.
8. Communicate actively to keep the audit committee informed and get their feedback.

Source: *Coming to Grips With Change: A Look at New PCAOB Requirements*, IIA Audit Executive Center, 2014, <https://www.granthornton.com/~media/content-page-files/advisory/pdfs/2014/BAS-AEC-PCAOB-alert.ashx>.

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3. COMMUNICATION AND RELATIONSHIP BUILDING AMONG EXTERNAL AUDIT, INTERNAL AUDIT, AND THE AUDIT COMMITTEE

Much time was devoted at the sessions to discussing how external auditors, internal auditors, and the audit committee interacted with one another, and how those relationships might be enhanced.

INTERNAL AUDIT IS A MAINSTAY OF AUDIT COMMITTEE SUCCESS

The discussions in all venues explored the relationship between internal audit and the audit committee. Recognizing internal audit's overall objective of improving the effectiveness of governance, risk management, and control processes, audit committee chairs discussed the value of internal audit as:

- Assurance provider.
- Discoverer of trends that put issues on the audit committee's radar.
- The "eyes and ears" of the audit committee, as well as its "go-to" resource.

Audit committee chairs appreciated the various roles that internal audit assumes, and they were wary of having them trumped by the demands of the external audit and Sarbanes-Oxley compliance:

“ We do not want internal audit to be solely an extension of the external auditors. There are operational controls that need

to be addressed, so we try to keep [their participation in the external audit] at a certain level. We realize that if internal audit did more we could offset some more external audit hours. But that would take time away from things that they need to be doing for the business. ”

Internal auditors noted that sometimes they simply do not have the resources to do all that the internal audit charter asks. One way to compensate for the lack of staff is for internal audit to support control self-assessment (CSA), especially in the operating groups of large companies with operations outside of the United States.⁶ However, CSA may reduce or eliminate the ability of the external auditor to use that work.

In helping the audit committee achieve its objectives, internal auditors stressed the importance of understanding the company's business and each business group. Demonstrating that knowledge is key to convincing company employees that internal auditors are not robotic tick-checkers with a "gotcha" mentality. Instead, with their broad exposure to all parts of the organization, and support from the audit committee, internal auditors can help staff solve problems and usefully communicate best practices throughout the company.

INCREASING FREQUENCY OF INTERNAL AUDIT AND AUDIT COMMITTEE COMMUNICATIONS

Attendees addressed the basic questions of how often they should meet and under what

⁶ For a discussion of control self-assessment, see The IIA's CSA Sentinel, Second Quarter 2006, <http://www.theiia.org/CSA/index.cfm?iid=456&catid=0&aid=2153>.

circumstances. Some audit committee chairs and chief audit executives said they tried to meet informally with each other at least a few times a year. Others meet more frequently, at least once a month.

Nevertheless, there was general consensus that, if there was something important to discuss, it shouldn't wait for a formal meeting. The view of one audit committee chair:

“ I have a very good working relationship with the director of internal audit. We meet outside of the regular meetings. We have lunch, we have dinner, so we have opportunities to talk about issues. He knows that if something bothers him, then it bothers me. If he says I need to hear about an issue that's not part of a finished audit report yet, then I want to talk about that. If I feel that it's something significant to bring to the other audit committee members, I will do so. ”

BETTER PLANNING OF THE EXTERNAL AUDIT

Several attendees spoke to the usefulness of planning and coordinating the external audit early and throughout the year, which reduces the potential for unpleasant surprises and better phases the work performed by the external auditor over the course of the year. An audit committee chair remarked:

“ There's a lot of work that could be done prior to the end of the year...how internal audit, management, the audit committee, and the external auditor all work together to figure out how to do that is very important. I tell the CFO and the CEO that, if they have any

issues, those need to be brought to the table early and often so they can be discussed. ”

Other participants pointed to internal audit training as an area that could be done early in the audit cycle. One participant commented:

“ There's a very good dialogue to be had about training as early in the year as possible, so you can discuss what documentation requirements are and how they can be improved. You have to sit down with internal audit and go through the forms and work through everything together. ”

LEVERAGING EXTERNAL AUDIT TO HELP REINFORCE INTERNAL AUDIT CONCERNS TO THE AUDIT COMMITTEE

Some internal auditors felt that, when attempting to communicate with audit committees, it sometimes helped when external auditors agreed with their views and independently reinforced the message:

“ When you have some common interest in moving the business forward relative to how risks are being managed, and where there are some residual risks that you don't believe are being tended to, sometimes the voice of the external auditor can be heard more clearly. ”

Another function external auditors can usefully perform is to offer perspectives to the audit committee with regard to internal audit's performance. If external auditors aren't eager to use the work of internal audit, that may give the audit committee an indication of the quality of internal audit services in support of ICFR testing and documentation.

CONCLUSIONS

Leveraging the Roles of the Audit Committee, Internal Audit, and External Audit in ERM

- Internal audit within organizations can be an effective champion, advocate, and facilitator of ERM without losing its independence.
- The external auditor can play an important role as an advocate and educator of ERM to the audit committee.
- Audit committees play either a primary or supporting role in overseeing risk management across the organization. They are well positioned to apply the necessary top-down support for the launch of and continued stewardship of ERM.

Imperatives for Enhanced Efficiencies in the External Audit

- The external and internal auditors should communicate early and often to help eliminate duplicate work, avoid eleventh-hour surprises, gain efficiencies, and enhance audit quality.
- Better training for internal audit staff on the desired audit evidence required by the external auditor can help to maximize the usefulness of internal audit efforts in controls testing.
- Charged with oversight of both the internal and external audit functions, audit committees are instrumental in considering the amount of support internal audit will provide to the external auditors. Audit committees also can act as useful intermediaries in managing expectations for each auditor group, as well as facilitating communication between them.



Fostering Effective Relationships Among the Three Stakeholders

- Internal audit is highly valued by the audit committee as its “eyes and ears” and as its “go-to resource.” Although in some organizations internal audit may have an important role to play in the external audit, that function should not eclipse the operational audits and other services internal audit provides and that audit committees highly value.
- Both formal and informal channels of communication among the audit committee, external auditors, and internal audit staff are necessary for enhancing risk management processes and the external audit. Audit committee chairs and chief audit executives should have informal meetings outside of regularly scheduled meetings and communicate whenever necessary.
- When external auditors do engage often with internal audit, they are well positioned to share with the audit committee their observations of internal audit’s performance.

APPENDIX: ROUNDTABLE PARTICIPANTS

HOUSTON: NOVEMBER 4, 2014

Discussion Moderator:

Jim Key, *Principal Partner*, The Shenandoah Group

Participants:

Kevin Cantrell, *Vice President, Internal Audit*, Plains All American

Margot Cella, *Director of Research*, Center for Audit Quality

Vanessa C.L. Chang, *Audit Committee Chair*, Edison International

Jane Cobb, *Chief of Staff*, Center for Audit Quality

Gaylon Cunningham, *Senior Manager*, CenterPoint Energy

Jeffrey Curtiss, *Audit Committee Chair*, KBR, Inc.

Michael Desormeaux, *Audit Partner*, Grant Thornton LLP

Gina Eubanks, *Vice President, Professional Services*,
The Institute of Internal Auditors

James C. Flagg, *Audit Committee Chair*, HCC Insurance

Melissa Frazier, *Vice President, Audit and Controls*,
Comfort Systems USA

Paula Golac, *Head of Internal Audit*, ECOM Trading

Mike Grubbs, *Audit Partner*, BDO USA, LLP

John King, *Audit Partner*, EY

Jamie Knappe, *Director, Business Assurance*,
Stallion Oilfield Holdings, Inc.

Joe Lynch, *Director, Internal Audit*, Furmanite Corporation

Paul Rogers, *Audit Leader*, Deloitte & Touche LLP

Kimberly Seitz, *Vice President-Internal Audit*,
Helix Energy Solutions Group

Carol Severyn, *Executive Vice President & Auditor*, Frost Bank

Charles Windeknecht, *Internal Audit*, Atlas Air Worldwide

Wendell York, *Director, Internal Audit*, Rowan Companies

SAN DIEGO: NOVEMBER 11, 2014

Discussion Moderator:

Jim Key, *Principal Partner*, The Shenandoah Group

Participants:

Angelika Caicedo, *Audit Partner*, McGladrey LLP

Margot Cella, *Director of Research*, Center for Audit Quality

Jane Cobb, *Chief of Staff*, Center for Audit Quality

Christy Decker, *Vice President, Internal Audit Services*,
Sharp HealthCare

Raymond V. Dittamore, *Audit Committee Chair*,
Qualcomm Incorporated

Lee Duran, *Audit Partner*, BDO USA, LLP

Gina Eubanks, *Vice President, Professional Services*,
The Institute of Internal Auditors

Cat Hastings, *Senior Director, Internal Audit*, BioMed Realty

Jeff Hiltbrand, *Professional Standards Partner Audit*,
Grant Thornton LLP

Tim Holl, *Audit Partner*, EY

Becky Keesling, *EVP, Chief Auditor*, BOK Financial Corporation

Michael Lewis, *Vice President, Internal Audit*, Hologic

Paul Maier, *Audit Committee Chair*, Apricus Biosciences, Inc

Gary McCormick, *Assurance Partner*, BDO USA, LLP

Vincent Price, *Assistant Vice President, Internal Audit*,
ICW Group Insurance Companies

Scott Smith, *Audit Partner*, Deloitte & Touche LLP

Andy Warren, *Audit Partner*, Moss Adams LLP

Cathy Young, *Chief Audit Executive*, Lytx

KANSAS CITY: DECEMBER 2, 2014

Discussion Moderator:

Jim Key, *Principal Partner*, The Shenandoah Group

Participants:

Susan Brooke, *Professional Practice Fellow*, Center for
Audit Quality

Margot Cella, *Director of Research*, Center for Audit Quality

John Curran, *University Director of Internal Audit*,
University of Kansas

Sarah Duckwitz, *Director, Internal Audit*, CommunityAmerica
Credit Union

Christee Highbarger, *Director, Internal Audit*, NPC International

Lael Holloway, *Director, Risk Advisory Services*, Experis

Tony Jackson, *Director, Audit Services*, Great Plains Energy

Gary Kral, *Internal Auditor*, DH Pace

Mark Lacy, *Audit Partner*, Deloitte & Touche LLP

Brett Lewis, *Office Managing Partner Audit*, Grant Thornton LLP

Jeff McCall, *Vice President, Internal Audit*, Ferrellgas

Jim Morris, *Director*, Capitol Federal Financial

Melissa Ryan, *Senior Director, Audit Risk and Compliance*,
Epiq Systems

Chris Schiro, *Director, Internal Audit*, Ryman Hospitality Properties

Steve Sheckell, *Audit Partner*, EY

Michele Stromp, *Audit Partner*, KPMG, LLP

Randy Weih, *Internal Audit Executive*

Marc Woodward, *Director, Internal Audit*, Hallmark Cards, Inc.

Rick Wright, *Director, Internal Audit*, YRC Worldwide

Angela York, *Lead Auditor*, KCP&L

ABOUT THE CAQ

The Center for Audit Quality (CAQ) is an autonomous, nonpartisan public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs. For more information, visit www.thecaq.org

ABOUT THE IIA

The Institute of Internal Auditors (The IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 180,000 members from 190 countries. The association's global headquarters are in Altamonte Springs, Fla. For more information, visit www.theiia.org

ABOUT THE AUDIT EXECUTIVE CENTER

The IIA's Audit Executive Center is the essential resource to empower CAEs to be more successful. The Center's suite of information, products, and services enables CAEs to respond to the unique challenges and emerging risks of the profession. For more information on the Center, visit www.iaa.org/cae

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