FROM THE IIA

Small Audit Shop Progress and Prognosis

This article was derived from a presentation by IIA Vice President, Learning Center, Richard Chambers CIA, CGAP, CCSA, at The IIA's 2003 Small Audit Shop Conference

Over the past few years the landscape of internal auditing has changed significantly. In fact, its very definition has broadened with an expanded focus on risk and corporate governance. In 1999 internal auditing was officially redefined by The Institute of Internal Auditors (IIA) as:

...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.

This new definition was introduced at a time when the economy was booming, the markets were soaring, productivity was at an all time high, and the prospects for technology seemed endless. On the cusp of Y2K, internal auditors — especially those in small audit shops — were seeking new ways to add and demonstrate value to their organizations.

Seemingly, in a blink of an eye, virtually everything changed. A troubled economy, crippled equity markets, damaged investor confidence, global instability and the ongoing chilling effects of 9/11 painted a picture of gloom, pessimism, and distrust. At the same time, it became clear to many that internal auditors could be a viable part of the solution. More than ever, internal auditing was at the epicenter of everything that was happening in the business world. Management and boards began to turn to internal auditors for support, education, assurance, and guidance in regard to critical issues such as enterprise risk management (ERM). And their in-depth understanding and broad acknowledgement of the value internal auditors could provide became a reality.

Although they are clearly not responsible for establishing or maintaining ERM, internal auditors are integral to the ERM process. The IIA's Professional Practices Framework (PPF) requires that the plan of audit engagements be based on an annual risk assessment, and that a risk assessment be undertaken at the outset of every audit engagement. The internal auditors' involvement in risk management includes monitoring, examining, evaluating, reporting on, and recommending improvements. The objective is to acquire the information necessary to identify the greatest potential risks, and then to devote audit resources to those areas of concern.

This disciplined and analytical approach is referred to as "risk-based audit planning," a particularly valuable tool for small audit shops. Specifically, it highlights risks that may be unknown, directs audit coverage to high-risk areas, directs limited resources for high payback, provides rationale for additional resources, affords a basis for measuring performance, and provides a tool for management to gauge or assess enterprise risk. In short, it ensures appropriate prioritization in order to achieve adequate coverage of the audit universe.

A key mitigator of risk is internal control. Although internal auditors have always touted the importance of and necessity for strong systems of internal control, new legislation and regulations now mandate that organizations establish, evaluate, report on, and assess internal controls. In fact, some have suggested that the Sarbanes-Oxley Act of 2002 is all about controls. The renewed emphasis on internal control stems from this new century's devastating financial frauds, which primarily resulted from corporate misbehavior and a dearth of ethics, both of which were enabled by ineffective controls.

Today's internal audit practitioners also exhibit an expanded involvement with corporate governance. Internal auditors are one of the four cornerstones of effective corporate governance, along

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processing time and have standardized our most frequent control testing tasks, allowing us to conduct a more thorough analysis of our high-risk business areas." A fully automated process to analyze standardized daily tasks during the bank's overnight processing window was also created. This application takes approximately 18 minutes to interrogate an average of 200,000 entries from multiple file and data sources. Before implementing this application, the majority of these operations were performed by assurance department personnel during working hours. Finally, this technology has helped BankBoston Argentina achieve greater confidence over data quality, thanks to flexible file selection, merging, and export options.

Conclusion

Audit professionals in healthcare today are more challenged than ever to make quick, well-informed decisions that address growing regulatory and business complexity. They must closely examine core business transactions to uncover unforeseen risks, potential control breaches, and opportunities for organizational improvements. More powerful and timely business analytics and reporting are needed to produce reliable results and drive confident decision-making. By extending audit technology into a continuous monitoring framework, healthcare organizations can maximize their insight into key business processes enabling better decisions in a shorter time frame. ▪

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with the audit committee of the board of directors, executive management, and the external auditors. Through enhanced reporting relationships, internal auditing ideally reports to the audit committee functionally and to executive management administratively. This positions the internal auditors to provide greater assistance and education to the board and audit committee, evaluate and foster organizational ethics, and help management and the board achieve their objectives.

All of these changes to the profession have put internal auditing in the spot light. This is a good thing, especially in regard to small audit shops, where they might often have to make a concerted effort to ensure clients are aware of their presence and their many areas of service.

Practitioners at small audit shops face a unique set of challenges. They must provide the same scope of audit coverage as their counterparts in larger shops, only with far fewer resources. Keys to success include learning to work smarter – not harder; leveraging the work of others; following the risk; and generating the greatest impact possible with the limited resources available. ▪

AHIA VISION STATEMENT

The Association of Healthcare Internal Auditors (AHIA) will be recognized as a leader in and a voice for the healthcare auditing and compliance professions. We will be at the forefront of audit and compliance services, audit research, and education. With our executive management team and affiliated partners we will create, teach, and deliver today's best practices and tomorrow's breakthroughs in healthcare auditing and compliance monitoring.

The AHIA Board of Directors is pleased to announce that

MARK EDDY

assumed responsibility for a recent board vacancy

Mark's term will run from January 1, 2004 through December 31, 2004.

Mark is Vice President of Internal Audit at HCA - Hospital Corporation of America, located in Nashville.

WELCOME!