

Audit Without Borders: Internal Auditing in a Global Landscape

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Learning Objectives

- Identify the function of an internal audit and its use in the overall risk assessment and management of your organization
- Analyze how to approach an internal audit arrangement
- Apply the basics of developing an internal audit plan

3

Polling Question 1

Do you want CPE credit?

- Yes
- No

4

What is Internal Audit (IA)?

“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.”

– Institute of Internal Auditors

5

More on Internal Audit

- Difference between external auditors and internal auditors:
 - External auditors are independent; they are hired by and report to the governing body. They perform procedures in accordance with generally accepted auditing standards (GAAS) and produce a report in accordance with generally accepted accounting principles (GAAP).
 - Internal auditors support the governing body but may not be independent. They do not have reporting or testing requirements.

6

Polling Question 2

Internal auditors have reporting and testing requirements.

- True
- False

7

More on Internal Audit (continued)

- Useful in identifying high-risk areas — not just financial statement risk, but risks in compliance, reputation, and other areas as well
- Overall format: identify key risk areas for the organization, identify timing for key risk areas, complete testing, report findings, gather responses on findings, complete final report
- IA should be useful to the organization — use to focus on areas not addressed by external audit, areas that are new to the organization, areas with significant turnover, etc.

8

Internal Audit and Risk Assessment

- Organizational risk assessment is a required part of a strong internal control environment
- Control environment has many aspects; the primary aspects are:
 - Risk assessment – supported by IA
 - Information and communication
 - Monitoring – supported by IA
 - Reporting
- Effective internal audit provides a methodology to identify and address significant areas and gaps therein

9

Internal Audit and Risk Assessment (continued)

- Formalized internal audit plan
 - In accordance with standards from the Institute of Internal Auditors (IIA):
 - International Standards for the Professional Practice of Internal Auditing
 - Does not eliminate an external audit, but may support an external audit with proper communication and planning
- Informal/ad-hoc IA plan
 - Can be focused on areas as needed
 - May not meet the standard for use by external auditors

10

Internal Audit and Risk Assessment (continued)

- Who will be responsible for the risk assessment, IA plan, procedures, and follow-up?
 - Audit committee
 - Staff members
 - Outsourced consultants
- Tasks for IA should not be taken lightly and should be assigned to a group with enough time to devote to it

11

Internal Audit Approach

Set up an internal audit plan:

1. Risk assessment – develop a list of risk areas across the organization, including qualitative and quantitative risks.
2. Devise a rating scale of least risky to most risky – this is dependent on each organization.
3. Assign the rating scale to each risk, focusing on areas of size and/or the most concern.
4. Generally, each area identified as a significant risk area should have documented policies and procedures. If not, start here.

12

Polling Question 3

My organization's internal audit plan is:

- Formalized
- Informal/ad-hoc
- We don't have an internal audit plan
- I'm not sure

13

Internal Audit Approach (continued)

As the IA plan is being developed, keep the following in mind:

- What is the most effective use of time and resources?
- What areas have the most immediate risk factors?
- Are there upcoming accounting and/or reporting pronouncements that will require additional documentation of policies and procedures?
- Do grants, contracts, or other federal and state funding have requirements that are often findings during an audit? Is the organization expecting new funding in the upcoming year that will require monitoring?

14

Internal Audit Approach (continued)

Simple Risk Assessment Matrix				
		Impact		
		High	Medium	Low
Likelihood	High	C	H	M
	Medium	H	M	L
	Low	M	L	L

C = Critical; H = High; M = Medium; L = Low

15

Internal Audit Approach (continued)

Resources to develop procedures:

- International Institute of Internal Auditors
- Peer resource groups
- Online: UNICEF and World Vision post their internal audit information on their websites
- Use your organization's policies and procedures to create a checklist of internal controls to be evaluated under IA to ensure compliance

16

Internal Audit Approach (continued)

Once procedures have been identified:

- Choose a time period to be audited, the time for the audit to take place
- Set timelines and expectations for the work to be done — timing should be meaningful to the overall internal control structure of the organization
- Create a report template for audit completion reporting
- Set a time period for responses from the various offices and departments to the findings

17

Internal Audit Reporting

- IA report should be written by the internal auditor, with opportunity for responses by those areas audited
- Gather and evaluate responses; include in IA report, if applicable
- Report findings to the governing body – typically the Audit Committee
- Audit Committee should use the IA report in evaluation of the organization's overall risk

18

Polling Question 4

How would you describe your organization's internal audit process?

- Excellent – no changes needed.
- Good, but there's room for improvement.
- We have work to do!

19

Questions?





Thank you.

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