

Risk-Based Auditing, Quality Assurance and Improvement Program in the Practices of Internal Auditing

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Abstract

The purpose of this article is to outline internal auditing approaches' risk-based audits, quality assurance, and improvement programs. This paper provides a comprehensive review of risk-based auditing, quality assurance, and improvement initiatives for internal audit practitioners, audit committees, and senior management in organizations. Internal audits are designed to find flaws in a firm's operational procedures and internal controls so they may be quickly remedied to avoid harm to the company or its stakeholders. To identify the functional areas where a corporation is most exposed, the internal audit plan should be risk-driven. The internal audit plan ought to consider the organization's strategic needs. Similarly, each internal audit purpose should be in line with the audit strategy. The researcher combed through a vast number of academic publications. This study was created using desk-based research and secondary data. The study's findings will be of interest to academics and policymakers.

Keywords: Internal Audit, Risk-based Auditing, Quality Assurance, Improvement Program, Internal Audit Process.

Introduction

The Institute of Internal Auditors (IIA) defines internal auditing as “An independent, objective assurance and consulting activity designed to add value and improve an organization’s operations”. Internal audit (IA) duties are crucial in assisting firms in meeting their objectives and safeguarding their assets (Alqudah et al. 2019). Furthermore, the IA has evolved into an important management tool for ensuring effective corporate control (Behrend and Eulerich 2019; Endaya and Hanefah 2016). The CEO or Board of Directors should be in charge of overseeing Internal Audit's operations through its Audit Committee because it reports to top management. Internal audit personnel must be objective and free from internal politics in order to provide leadership with a trustworthy source of information. In accordance with the Audit Committee's instructions, Internal Audit works closely with Management to thoroughly review the control activities over important systems and processes.

Internal audits are the investigations conducted by internal audit. An internal audit can be used to assess how well a business is performing or how well a process is working in reference to a set of standards, rules, metrics, or guidelines. These audits may include an examination of internal controls for corporate governance, accounting, financial reporting, and general IT controls. Evaluations of the effectiveness and efficiency of crucial business processes, such supply chain management, may also be a part of internal audits. The individuals who work in internal audit are called internal auditors. Internal auditors might choose to specialize or cover all part of a business, depending on their skill set. Senior management and governing bodies should be able to get unbiased information from an organization's internal audit department about risks, the control environment, operational effectiveness, and compliance with applicable laws and regulations.

Aim of the Study

The purpose of this paper is to present the risk based auditing, quality assurance and improvement program in the practices of internal auditing.

Methodology

Numerous academic papers that have been printed in journals have been reviewed by the researcher. Secondary data and desk-based research were used to prepare this article.

Risk-Based Audit

The effectiveness of the controls currently in place is frequently the main focus of conventional audit procedures. A risk-based internal audit starts by looking at the inherent risks that the organization confronts. The next step is to correct and reevaluate the controls in light of the risks that are most urgent and likely to result in losses. Because it evaluates the organization as a whole rather than per department as in a typical audit approach, this strategy is better in line with an enterprise risk management methodology. Risk-based auditing is viewed as a cutting-edge strategy that helps firms identify the risks that limit their capacity to achieve their goals (Arena and Azzone 2009; Lenz and Hahn 2015). Risk-based auditing is required by internal auditing standards, and standard 2010-Planning said that “the CAE must establish a risk-based plan to determine the priorities of the IA activity, consistent with the organization’s goals” (The Institute of Internal Auditors 2017, p. 10). As a key audit duty, planning typically entails developing a strategic plan, a yearly plan, and plans for specific audit assignments.

Additionally, efficient planning increases productivity and makes it possible to do a number of audits quickly (Mihret and Yismaw 2007). According to Zainal Abidin (2017), the divide of ownership and agent from the perspective of agency theory is where the idea of agency theory originated. This was done with a carefully considered control and supervisory structure intended to maximize the value to all stakeholders. To ensure that risks associated with strategies are accurately recognized and mitigated and that management is operating in accordance with the owner's expectations, the IA used a risk-based audit technique. It is the IA's duty to keep an eye on actions done while the strategies are put into practice to accomplish the goals. Because it promotes better resource management and focuses attention on important concerns, IA chose a risk-based audit technique (Azzali and Mazza 2018).

The IA can guarantee the effectiveness of risk management and internal controls (Lois et al. 2021). When risk management is incorporated into the process, internal auditors and auditees can communicate more effectively (Arena and Azzone 2009; D'Onza et al. 2015). Additionally, it enables the IA to collaborate with the company manager to identify internal control weak spots. Risk management is necessary for IA to be successful since it aids businesses in creating controls to minimize their risks (Turetken et al. 2019).

As risk management effectiveness rises, the value that IA adds rises as well. This contribution also rises when IA employs a systematic approach to carry out risk management evaluation (D'Onza et al. 2015). It's important to recognize the risks the organization faces and develop an audit plan to mitigate those risks. This necessitates the use of a dynamic risk assessment technique that links modifications to the audit plan to modifications to the company's risk profile (Feizizadeh 2012). Internal auditors worry about their capacity to play a significant part in risk management despite the fact that their involvement in risk management allows them to update the audit plan in light of the most recent risks (Sarens and De Beelde 2006).

Quality Assurance

Despite being two very different procedures, quality assurance and audit can be combined to produce a powerful tool for raising the bar, upholding consistency, and placing more reliance on a company's operations. The objective of a quality assurance audit is to ascertain whether a firm is adhering to the

requirements and specifications set forth by the regulatory body in charge of monitoring as well as, perhaps more crucially, the expectations of its customers. Additionally, to ascertain whether specific processes are working in line with a set of criteria, this form of audit looks for data on those processes. IA must have a quality assurance and improvement program to succeed. IA must consistently assess its performance and raise the standard of its services in order to show that the company values it and that it has a strong reputation in the sector (Mihret and Yismaw 2007). However, there is a connection between the quantity of IA actions and the caliber of the audit job (Endaya and Hanefah 2013; Mihret and Yismaw 2007). The internal ability to produce insightful and practical findings and recommendations determines the quality of an audit; this ability also serves as a barometer for the level of staff expertise, the nature of the assignment, and the extent to which the audit is properly planned, carried out, and reported (Mihret and Yismaw 2007).

A number of IA operations, such as planning, overseeing, carrying out fieldwork, reporting results, formulating recommendations, and creating follow-up action plans for the recommendations, are also included in the idea of the quality of an IA (Endaya and Hanefah 2013). Another facet of the IA's quality, according to Arena and Azzone (2009), Rupys and Boguslauskas (2007), and Turetken et al. (2019), is the observance of internal auditing standards. Higher levels of quality work, where better levels of quality are defined as rigorous adherence to internal auditing standards and greater planning and execution, boost the effectiveness of internal audits. Internal auditing standards adherence will boost IA effectiveness (Turetken et al. 2019). Internal auditing standards compliance affects the effectiveness and value that an IA may provide because they provide a framework for performance and a range of value-added activities (D'Onza et al. 2015).

Internal Audit Processes

Researchers discovered a connection between risk-based auditing methods and IA procedures (Castanheira et al. 2010; Coetzee and Lubbe 2013; Sarens and De Beelde 2006; Soh and Martinov-Bennie 2011). Researchers have also discovered a relation between risk-based auditing methods and adopting a quality assurance and improvement program (Arena and Azzone 2009; Castanheira et al. 2010; Coetzee and Lubbe 2013; D'Onza et al. 2015; Lenz and Hahn 2015; Mihret and Yismaw 2007; Rupšys and Boguslauskas 2007; Sarens and De Beelde 2006; Soh and Martinov-Bennie 2011; Turetken et al. 2019). IA procedures are essential to IA effectiveness. The risk-based auditing methodology enables the IA to guarantee the efficacy of risk management and internal controls. IA processes are stepped by creating a quality assurance and improvement program and a risk-based auditing methodology.

Internal auditing is a company's cost center; it doesn't generate revenue but a company's internal audit department can have a big impact on its continued survival and profitability. Compared to external auditors, internal auditors assess a broader range of variables, such as the organization's reputation, operational effectiveness, strategic growth, impact on the environment, and employee treatment. People who manage or carry out the actual operations are unable to see the significant insights that can be gleaned from objective assessments of an organization's processes and performance because of the paradigm or confined perspective that comes with being a part of the activity being assessed.

The risk-based audit methodology has an impact on the priorities for the audit, the areas that will be inspected during the audit, the resources needed to complete the audit, and the audit tools and techniques used to satisfy the audit engagement's objectives (The Institute of Internal Auditors 2019). On the other hand, the quality assurance and improvement program seeks to ensure the IA's efficacy and efficiency while also ensuring that it adheres to the internal auditing standards and code of conduct and offers opportunities for improvement (The Institute of Internal Auditors 2019). In order for internal auditors to assist the business and enhance its operations, a program for quality assurance and improvement must be developed (Marais 2004). This technology should also help internal auditors change the processes by requesting input and suggestions from audited entities and internal auditors (The Institute of Internal

Auditors 2019). Since they have had the greatest impact on IA practices, adopting risk-based audit and quality assurance and improvement programs are employed as components of IA processes.

Improvement Program

The need of implementing a quality assurance and improvement program that addresses each element of IA operations is emphasized in the internal auditing recommendations. Both internal and external evaluations are a component of the program for quality control and development. These assessments are intended to provide opportunities for research on how closely internal auditing follows to standards and ethics, as well as for evaluation of effectiveness and efficiency (The Institute of Internal Auditors 2017; Soh and Martinov-Bennie 2011).

In addition to the ongoing evaluation of IA performance provided by the internal assessment, a periodic self-evaluation is carried out by someone within the organization with sufficient knowledge of internal auditing standards and procedures. The external review, which confirms that IA work complies with the internal auditing criteria, is carried out by a disinterested examiner from outside the organization (The Institute of Internal Auditors 2017). Once the IA quality attained a level that satisfied management interest, management would naturally support and be dedicated to implementing the IA recommendations because management understood the significance of IA and its contribution to the achievement of organizational goals; ultimately, this would positively enhance the IA effectiveness (Mihret and Yismaw 2007).

Conclusion

The techniques used in internal auditing determine how effective it is. The implementation of a quality assurance and improvement program as well as a risk-based auditing strategy, however, accelerates IA procedures. The need of implementing a quality assurance and improvement program that addresses each element of IA operations is emphasized in the internal auditing recommendations. The priorities for the audit, the areas that will be explored throughout the audit, the resources required to complete the audit, and the audit tools and techniques utilized to achieve the audit engagement's objectives are all impacted by the risk-based audit methodology. For IA to be successful, it needs a quality assurance and improvement program. If IA wants to demonstrate that the company values it and that it has a solid reputation in the industry, it must continuously evaluate its performance and improve the quality of its services. There may have some limitations to this study. Gray literature may therefore be incorporated into future research to broaden the investigation and shed more light on the crucial component of IA effectiveness.

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