

Invited guests, fellow speakers and conference delegates

Bula and Good Morning

It is common knowledge that the external audit profession in Fiji and elsewhere has evolved from the accounting profession which is also responsible for setting the required standards for the respective professions. However, it seems that the standard setting bodies have a greater liking for the accounting profession and the private sector. In this respect, in Fiji, we are yet to adopt the International Public Sector Accounting Standards and the International Standards for Supreme Audit Institutions which is used by the OAG for public sector audits.

We have very limited training opportunities for external auditors. There are even very limited external audit topics in conferences and workshops. Despite the limited opportunities for external audit trainings, most accountants are performing the roles of auditors. Perhaps it is time to ask “Are Accountants Auditors?” Or specialist training is required before accountants can become professional auditors? Food for thought/

Ladies and Gentlemen, in this context, the role of IIA Fiji as an institute for internal auditors becomes very relevant and recognition of your contribution to your respective organizations becomes a matter of utmost priority.

Internal auditing is defined 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 process.

The role of internal audit is an important part of an organization's governance and assists boards and executive management in the effective operation of the organization. Internal audit also acts as a catalyst for improving an organizations effectiveness and efficiency by making recommendations based on objective analyses and assessments of data and processes.

The objective of external audit is to determine whether, in the auditor's opinion, the statements present fairly in all material respects - that is, they show a true and fair view in all material respects of the an organization's financial position, results of operations, and cash flows, in conformity with national or international generally accepted accounting principles.

In the past 10 years, more organizations have established internal audit functions not so much so of any legislative requirement but the value which is generated through internal audits. Internal audit functions are also known as the third and final line of defence to organizations. Hence their contribution to organizations must be acknowledged and appreciated.

Internal auditors in the public sector also contribute significantly to the respective Ministries and Departments where they have been engaged. Recommendations made in internal audit reports are being implemented. Efforts are now being made for set up of Audit Committees which would give their work greater relevance.

Since both internal and external audits have cost implications for organizations, there is opportunity to create synergy in the engagement of the two professions.

Ladies and Gentleman, I am pleased to be given an opportunity today by IIA Fiji to contribute to this topic and the theme for the 2017 IIA Fiji Conference – “Internal Audit Relevance”. Before we can discuss the relevance of internal audit for effective external audits, let us consider some of the distinct roles of the two professions.

1. Internal auditors report to their boards or audit committees while external auditors report mostly to shareholders.
2. The scope of internal audit covers assessment of all categories of risks and their management: financial, operational, compliance and governance while external audit is required to express an opinion on annual statutory accounts, relevant disclosures and internal controls relevant to the opinion.
3. The primary objective of internal audit is to provide assurance that senior management fulfills their duties related to governance, risk management and internal controls while external audits provide assurance on the annual statutory financial statements and other reports required by law.
4. Internal auditors require diverse skill-set that is being able to understand corporate governance, business risks, operational, strategic and compliance risks. External auditors should be able to understand the business to be able to challenge the use of the accounting standards.
5. Internal auditors work according to an audit plan approved by the board or audit committee, and senior management while external auditors normally provide opinion on annual statutory accounts.

Perhaps due to the distinctive roles the two professions have, there is sometimes a general reluctance to work together. Internal auditors allege external auditors of stealing the limelight from their findings in Management Letters or Audit Memorandums, in the case of the public sector. There is also argument regarding duplication of work by external auditors. On the other hand, external auditors tend to believe that they are a superior profession and can control what internal audit does. Some also believe that internal auditors are process verifiers and have little or no understanding of financial information. Some go on to say that the internal auditors do not have clear mandate for some of the work they are doing. Hence full value from the work the auditors carry out is sometimes not fully realized by the organization where they are employed. The situation in the public service is no different although efforts are now being made to unite the two professions.

Much of this can also be attributed to the attitude of auditors in the two professions. Except for some exceptions, auditors by the nature of work they carry out tend to be very arrogant and egoists. After all they are born from the same parent, accounting.

To address this and bring the professions to work together *ISA 610 Using the Work of Internal Auditors* has been developed. The 25-page standard deals with circumstances in which an internal auditor's work may or may not be used. Some of the key requirements for internal auditors to satisfy include independence, competence, objectivity, quality assurance, continuing professional development and established policies and procedures for internal audit work. The standard further goes on to suggest regular communication between the internal and external auditor during the course of an external audit

and include discussions on any actual, suspected or alleged fraud which the external auditor should consider.

ISSAI 1610 Using the Work of Internal Auditors has been issued by INTOSAI for use by national audit offices. The Standard leans heavily on ISA 610 as far as determining whether or not to use the work of the internal auditor.

IIA Global has also developed and issued International Standards for the Professional Practice of Internal Auditing (Standards) or IPPF. *PA 2050-1 Coordination* states that to the extent that professional and organizational reporting responsibilities allow, internal auditors should conduct engagements in a manner that allows for maximum audit coordination and efficiency. The standard further states the CAE should make regular evaluations of the coordination between internal and external auditors. Such evaluations may also include assessments of the overall efficiency and effectiveness of internal and external auditing functions, including aggregate audit cost. The standard also provides for the CAE to assess the performance of external auditors at the request of the Board. *PA 2050-2 Acquisition of External Audit Services* further states that the internal auditors should consider facilitating the development of appropriate policies for appointment, renewal or rotation of external auditors.

As you would have realized, there are more challenges brought about by the standards as far as bringing about the two professions to work together better is concerned.

However, the legitimacy required by external audit of internal to meet the requirements of ISA 610 is achievable and can be done. Internal audit functions in Fiji need to adopt the IPPF for Internal Auditing (Standards) and achieve full compliance. However, support from Senior Management and the Audit Committee is essential since this may require significant investment. There are many benefits from a standard compliant internal audit function.

Despite the requirements of standards and practice advisories, as minimum, internal and external auditors should meet and discuss matters of mutual interest including the following:

1. Audit coverage – audit plans and scope to minimize duplicating efforts.
2. Access to audit programs and working papers – share access to test programs and working papers.
3. Exchange of final internal audit reports, audit memorandum and management letters (external audits) – share the nature of audit findings in respective audits and management comments.
4. Follow – up audit results – share internal audits result of follow up of recommendations made in internal and external audit reports, including management action taken, outstanding issues and repeat audit findings.
5. Understanding of audit techniques, methods etc. –
 - a. CAEs should understand the scope of work planned by external auditors including materiality levels.
 - b. CAEs should provide sufficient information to enable external auditors to understand the internal auditors' techniques, methods and terminology.

6. Significant matters – advise each other of any significant matters noted in their respective audits

ISA 610 further states that once an external auditor has determined that the work of the internal audit function can be used for audit, the audit work done should be within the overall external audit strategy. Work of internal auditor which can be used includes the following:

- (i) Testing of controls
- (ii) Substantive procedures using limited judgment
- (iii) Observation of inventory counts
- (iv) Tracing transactions relevant to financial reporting in information systems
- (v) Compliance with statutory requirements
- (vi) Fraud investigation reports

To conclude, I would like to call upon Audit Committees and Senior Management to play a more proactive role in bringing the two professions to work together better for the overall benefit of organizations whether they exist in the private or public sector. Where Audit Committees do not exist, maybe it's time for Boards to establish and empower them to review the work of internal and external audit.

I would like to encourage Audit Committees and Senior Management to require that their internal audit functions and service providers to move towards adopting the IPPF or IIA Standards.

Finally, I also admit that no amount of standards or practice advisories can make the two professions to work together better. Therefore, I would like to take this opportunity to suggest that the two professions, IIA Fiji and Fiji Institute of Accountants to meet and discuss the opportunities to work together and create more training opportunities for auditors.

Perhaps the timing is also right as both professions are currently led by women, Finau Nagera is President of FIA and Pretty Pritika is President of IIA Fiji. May the power of women achieve the impossible!

Thank you. Vinaka Vakalevu. Dhanyavaad. Shukriya. Fa'ekshea