



Private sessions with the head of internal audit

Audit Committee Questions
Audit Committee Institute



Meeting the head of internal audit in a private session allows the audit committee to ask questions other than relating to the internal audit plan – nevertheless, the head of internal audit might, as a result of his work, have valuable views and opinions.



Audit committee oversight essentials ...

Private sessions with the head of internal audit allow him or her to provide candid, often confidential comments to the audit committee on matters such as management's attitude, finance function and external auditor effectiveness.

Meeting the head of internal audit in a private session where management is not present allows the audit committee to ask questions on matters that might not have been specifically addressed in the formal part of the audit committee meeting and allows the auditor to provide candid, often confidential, comments to the audit committee.

Typically, there should be few items to discuss. All key matters related to financial reporting should have been tackled in a candid and robust manner with management, the audit committee and the auditor during the audit committee meeting.

Rather, the private session should focus on areas where the head of internal audit can provide additional, and

often confidential, comments to the audit committee on other matters. The private session gives the audit committee an opportunity to explore such matters in a frank and open forum. In addition, the audit committee may have more knowledge than internal audit on other matters, and this session allows the audit committee an opportunity to talk to internal audit about them.

However, the audit committee chair should manage such private sessions carefully as they introduce a lack of transparency, in that management does not hear about any problems or issues first hand and may not be given an opportunity to respond. This, in turn, may cause them to feel excluded and even defensive. Introducing such sessions as part of the regular process can alleviate some of these tensions.

Overall, private sessions can play an important role in the development of a trusting and respectful relationship between the audit committee and the head of internal audit.

Key questions for audit committees to consider:

Attitudes

Management's attitude toward financial reporting, internal controls and the internal audit

- What is your assessment of the tone from the top?
- What is your assessment of the ethics, values and integrity of management?
- Does management actively engage with the internal audit process?
- What is your assessment of management's attitude toward internal control systems and disclosure control procedures?
- Is there excessive pressure on management or operating personnel to meet financial targets including sales or profitability incentive goals?
- How strong is the relationship between the internal audit function and management/operations?

Resources

Adequacy of people and resources in the financial management area and the external auditor

- Are adequate people and other resources devoted to key areas of the business and control functions?
- Does the finance function have a sufficiently broad range of knowledge and experience to be able to deal with the types of transactions faced by the company?
- Does management adequately respond to your internal audit findings and recommendations?
- Does the company's finance function have the appropriate number of people?
- Do they have a sufficiently broad range of knowledge and experience to be able to deal with the types of transactions faced by the company?

Relationships

Nature of the relationship between internal audit, management and the external auditor

- How do you assess the competence and integrity of the CFO including his commitment to transparency in financial reporting and internal controls?
- Did you receive full cooperation during the audit and did you get full, honest answers to all questions that were asked?
- Have any requests for information been denied or otherwise obstructed?
- Was management forthcoming, open and candid in discussions with you?
- How constructive is the relationship between the internal audit function and external audit?
- Is the internal audit function subject to undue pressure from any source?

Other issues

Other issues of concern to the audit committee or the head of internal audit

- Is internal audit confident that all relevant and significant risks are covered in the internal audit plan on a timely basis?
- Were sufficient resources in place to deliver the internal audit strategy to an appropriate standard?
- What is the most complex issue that was encountered during last year's internal audits that has not been discussed at the audit committee meeting?
- What were the two or three issues that you spent the most amount of time discussing with management?
- Is the external audit plan properly focussed? Are there other areas where you feel external audit should focus its activities?