

# Lunch and Learn Session: So What Does an Internal Audit Do?

---

*Wednesday, May 7, noon to 12:45 pm,  
Admin Building, Conf. Room 116B*

Presented by:

David Salchow, CPA inactive, CFE

Department of Administration, Internal Auditor



## True or False?

All Cabinet Level State Agencies have an Internal Audit function?

**FALSE**

- There is no requirement for Agencies to have Internal Auditors.
- There are 14 of the 24 cabinet level Agencies that have Internal Audit.
- Other large entities without Internal Audit include, MMB, the Legislature and the Governor's Office.

## What Does an Internal Auditor Do?

---

### So Why Does Admin Have an Internal Audit function?

- State Policy requires Agencies to periodically determine that controls are effective
  - Auditors are trained to test the effectiveness of controls in an efficient manner.
- Internal Auditors have skill sets well suited to completing certain required activities.
- Senior Management has a strong desire to self-monitor and discover weaknesses ahead of outsiders
- Internal Auditor uniquely skilled to conduct financial investigations

# What Does an Internal Auditor Do?

---



At the Department of Administration, the role of the Internal Auditor is to:

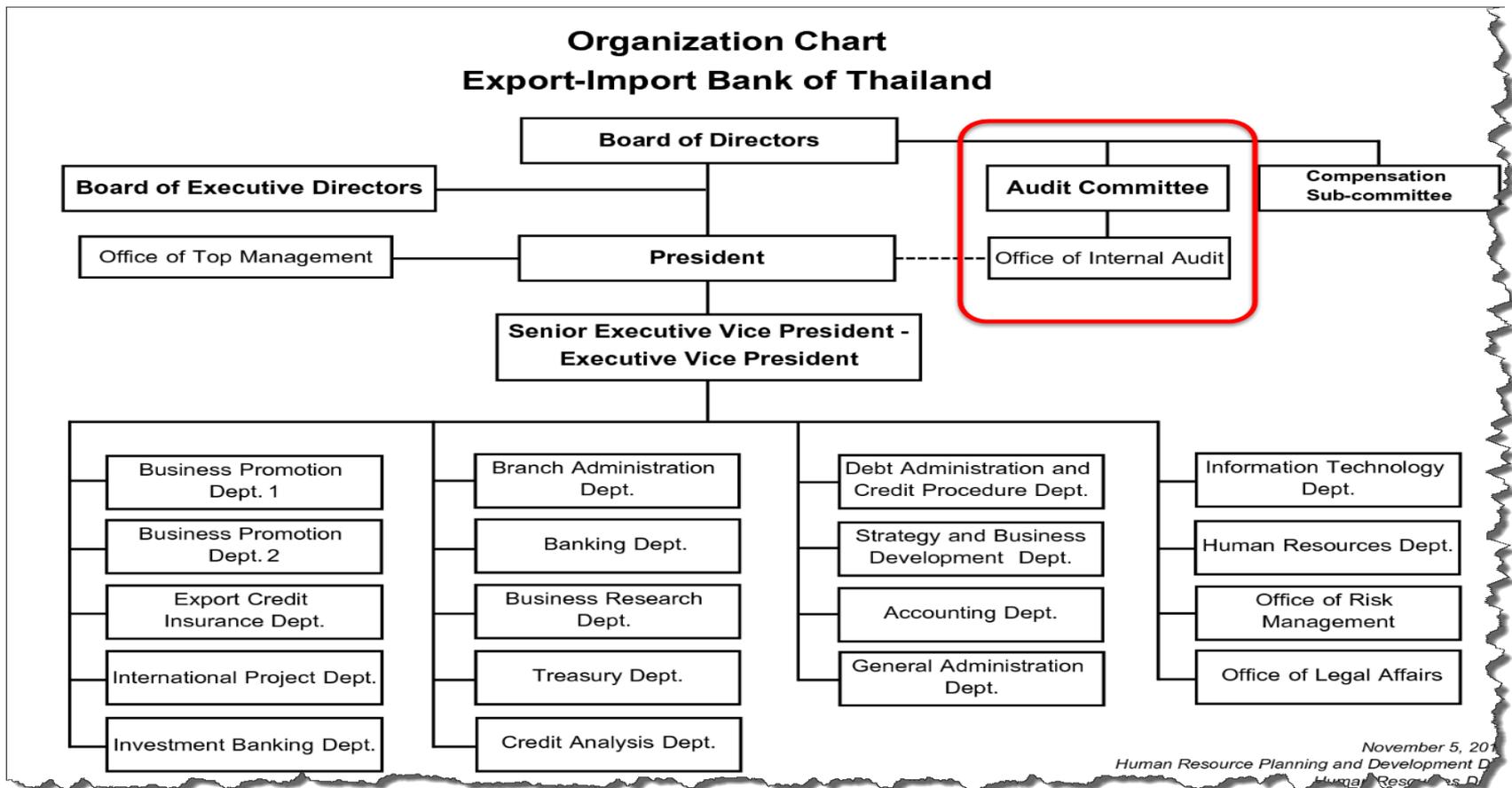
- Conduct internal audits at the direction of Senior Management.
- Help management build and maintain an efficient and effective system of internal controls.
- Promote the concepts of ethics, compliance, and internal control throughout the Agency through education, communication, consultation and, when necessary, audit or investigation.
- Liaison with the Legislative Auditor and other outside parties, where appropriate.
- Keep the management team abreast of changing requirements and trending topics in the areas of control, compliance and fraud prevention.
- Lead the Agency through the completion of required exercises, such as risk assessment, control certification, control environment assessment, audit finding closure and code of conduct certification.

## What is the difference between Internal and External Auditors?

- External Auditors (Also Known as Public Accountants) are legally separate persons or firms or entities charged with auditing financial statements (or internal controls, or compliance) in accordance with accepted auditing standards. Investors, regulators, ratings agencies, etc.. Rely on the reports of external auditors to obtain independently verified information about the entity being audited.
- Internal Auditors work for management or the Board of the Company. Internal Audit reports are internal to the Company.
  - Internal Audit reports in the public sector ARE public information.

# What Does an Internal Auditor Do?

## Classic placement of Internal Audit within an Organization

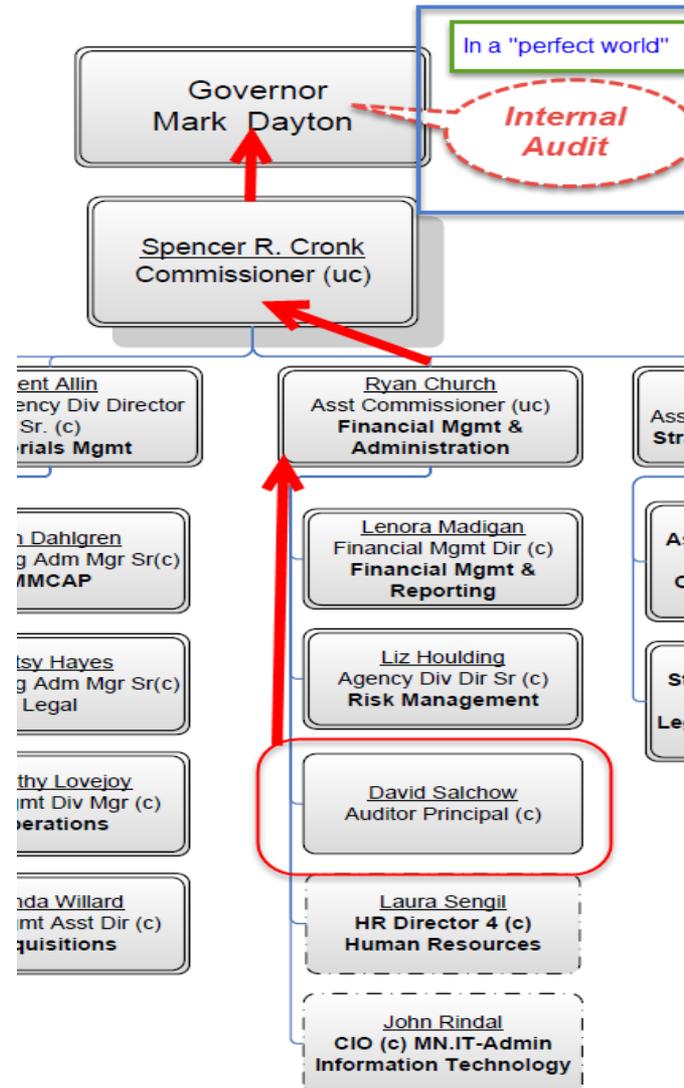


# What Does an Internal Auditor Do?

Department of Administration's placement of Internal Audit

- (With "David Salchow's ideal placement of Internal Audit"\* superimposed.)

\* Author's personal opinion



## What Does an Internal Auditor Do?

---

# What is an Audit?

- An external audit is an official examination of the books, records and accounts for the purpose of forming an opinion on whether or not they follow generally accepted accounting principles (GAAP).
  - The State of Minnesota generates a Comprehensive Annual Financial Report (CAFR) each year and the OLA audits it.
- An internal audit is an audit by the entity's own employees for the purposes of forming an opinion on stated objectives.
  - Those stated objectives are usually the adequacy of internal controls, or compliance with laws, regulations and policies.

# What Does an Internal Auditor Do?

---

## True or False?

Auditors from the OLA perform audits at Admin every year?

**FALSE**

- The OLA complete two audits each and every year: 1) The audit of the CAFR and, 2) the Single Audit (audit of Federal funds)
  - The OLA WOULD come to Admin every year. IF we had financial activities or accounts material to the CAFR or major federal programs.
  - This does not imply that our mission to the State of MN is not critical – Only that the dollars are not always large enough where they have to come each and every year.

# What Does an Internal Auditor Do?

---

## *OLA audits continued...*

- The remainder of the OLA's annual audits are completed on a risk based approach or at the direction of the Legislative Audit commission.
- What are some of the risk factors which determine when the OLA performs audits?
  - Date of the last audit; How much time has passed since the last audit
  - Size of the Agency
  - Criticality of services to the public
  - Nature of the business (Cash, Travel, Sales, Nature of Payments)
  - Recent publicity/press
  - Results of the most recent audit
- Admin is involved with many Statewide services audits such as P-Card, or Purchasing, or Bond Proceed Usage.

# What Does an Internal Auditor Do?

## Pie Chart



## What Does an Internal Auditor Do?

---

### True or False?

Auditors can establish requirements that businesses must follow?

**FALSE**

- Auditor's can only make recommendations to management. Management has to decide whether or not to follow the auditor's recommendations
- Auditor's often re-state laws, policies or requirements and opine that they apply to the auditee.

## True or False?

Auditors are responsible for ensuring the organization has controls?

**FALSE**

- Management is responsible for creating and implementing internal controls.
- Internal auditors can recommend controls and evaluate the effectiveness of controls

# What Does an Internal Auditor Do?

- What is COSO?



- Organizations with the best systems of internal control have all five elements present.
- Agencies in the executive branch are required to follow the COSO model for its systems of internal controls.

# What Does an Internal Auditor Do?

---

## Examples of the Five COSO Elements:

- Control Environment
  - Code of Conduct certification
  - Continuity of Operations Planning (COOP)
- Risk Assessment
  - Agency Risk Assessment
  - Risk and Control Matrices for financial processes
- Information and Communication
  - Monthly Minute
  - All Staff meetings
- Control Activities
  - Physical locks
  - Reconciliations
- Monitoring
  - Customer Satisfaction Surveys
  - Quarterly Operations reviews

## True or False?

Controls are in place to ensure that financial reports are correct, the books are correct and nothing gets stolen?

**FALSE**

- A Control is ***anything*** intentionally put into place to provide reasonable assurance that an activity will produce results in a predictable, controlled manner.
- Controls are required to be in place for our financial activities, but controls can be implemented in almost any process.

# What Does an Internal Auditor Do?

---

Examples of Controls that could be financial or non-financial



# What Does an Internal Auditor Do?

---

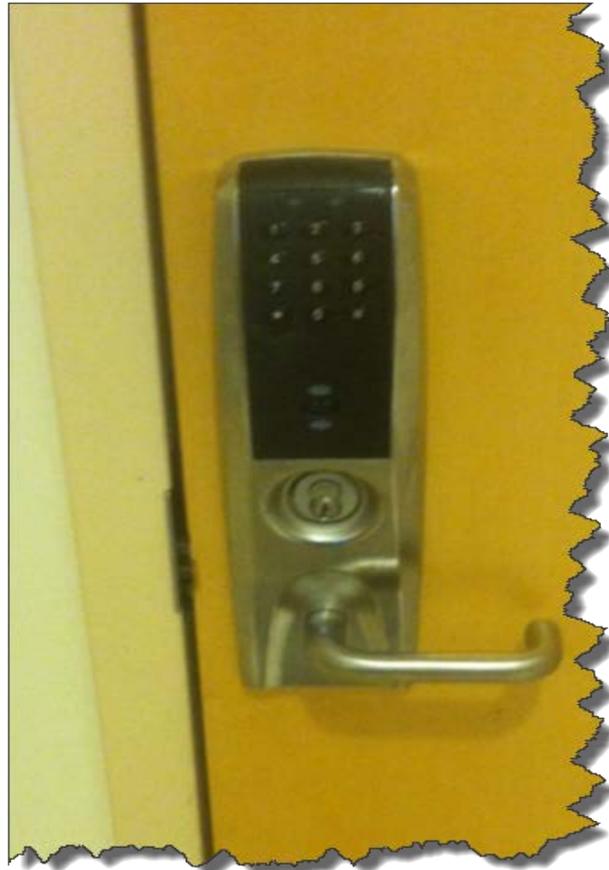
Examples of Controls that could be financial or non-financial



# What Does an Internal Auditor Do?

---

Examples of Controls that could be financial or non-financial



# What Does an Internal Auditor Do?

---

Examples of Controls that could be financial or non-financial



# What Does an Internal Auditor Do?

## Examples of Controls that could be financial or non-financial



# What Does an Internal Auditor Do?

---

## True or False?

If you have a great system of internal controls, you will always get the expected outcome?

**FALSE**

- Controls are designed to provide reasonable, but not absolute assurance.
- A control designed to provide absolute assurance is probably inefficient and too expensive to maintain; The cost of the controls would exceed the benefits derived.



# What Does an Internal Auditor Do?

---

## Discussion And Questions

# What Does an Internal Auditor Do?

---

**Thank You!**

David Salchow 651-201-2558  
David.salchow@state.mn.us