



Internal Audits and Effective Risk Management Assessment

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Many business owners and company managers feel intimidated by the idea of an internal audit, thinking it akin to an external audit. However, these two processes are actually quite different and have very different objectives. Unlike an external audit that looks specifically at financial accounts, internal audits actually examine a wide variety of factors. Instead of considering only the financial behavior of the company, an internal audit considers the well-being of the company and the many operations that could have an effect on the business' success.

Factors examined by internal auditors often include governance policies, risk management assessments, and internal control processes, though numerous others might also be considered. Such issues covered by an internal audit typically play a key role in the ongoing survival and prosperity of the business or organization. Thus, internal auditors will consider those issues that are fundamentally important to a company's reputation, growth, and overall well-being. This contrasts significantly from external audits, which assess only those operations that play a direct part in the company's financial status and reported wealth.

Internal audits are always conducted independently and objectively. While the internal auditing process generally involves the measurement of company compliance with their own policies and procedures, internal auditors are not responsible in any way for the actual execution of company activities. This objectivity allows internal auditors to investigate a company's operations through systematic and disciplined analysis, which results in an honest assessment. The internal audit process typically diagnoses any areas that might be improved in order to increase an organization's effectiveness and efficiency.

Benefits of an Internal Audit

An internal audit carries many benefits for a wide range of business entities. In fact, internal audits are one of the best methods of identifying risks that could potentially lead to failure in the achievement of performance and profitability targets. An ideal internal audit provides assurances that inform the management how well current processes are functioning, as well as how successfully the organization is coping with various risks. These assurances can be provided for a vast array of tasks, including the fair presentation of financial statements that is generally also part of an external auditing model.

In addition, an internal audit may provide a company with the tools to prevent losses of assets and resources. By objectively assessing the effectiveness and efficiency of existing processes, an internal audit can inform management how such operations could best be altered in order to provide the most successful, cost-efficient results.

These assessments also generally are helpful in the provision of accurate financial reporting, as well as an accurate assessment of the company's compliance record, as pertains to laws and regulations.

A Key Tool for All Companies

Such an examination can benefit numerous kinds of organizations, not just large, multinational corporations. In fact, companies of all sizes benefit from the internal auditing process. However, many companies do not have the resources necessary to conduct their own objective internal audits.

According to Deloitte, in a study of 75 heads of internal audits in a sample of businesses with average revenues of \$500 million or more, 63 percent reported that vulnerabilities to fraud increased in the past 18 months, yet more than 50 percent of surveyed individuals commented that they did not consider their present internal audit staffing levels sufficiently capable to cope with such increased risk.

Therefore, often the best means of conducting internal audits is to utilize outside service providers. It has always been quite common for companies to outsource these functions, so as to save money and receive the best, most objective, results. Such methods can save companies the expense of building or expanding their own internal auditing teams and ultimately provide a clearer, more expert assessment.

In Summary

Internal audits are a valuable tool for all kinds of companies, large and small, international and domestic. For the following reasons, an internal audit should be considered as a cost-efficient method of assessing a company's performance and efficiency levels:

- Internal audits provide objective assessments of how an entity manages risk, as well as their general effectiveness and efficiency levels.
- An internal audit can provide the tools necessary to avoid loss of assets and resources. Such a comprehensive examination of a company's operations can identify areas where there are extraneous expenditures and determine the best means of cutting costs.
- Internal audits do not even need to be conducted by an internal department. Hiring an external service provider is often the most cost-efficient and most effective means of conducting such an investigation.

It is important to consider an outside source such as a CFO services firm for internal auditing needs. By outsourcing such functions, internal audits become feasible for smaller companies as well as larger entities, and provide a more objective, more expert result.

References and Further Reading

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