

**DIFFERENCES,
PERCEPTIONS & REALITY**



vs

INTERNAL

EXTERNAL

AUDIT

OUTLINE



Context



Perceptions



Reason for
Perceptions



What is the
Reality?



Way
Forward

CONTEXT - INTERNATIONALLY

*Ernst & Young, Former
Partners Charged With
Violating Auditor
Independence Rules*

KPMG fined £3.4m
over 'serious failures'
in Rolls-Royce audit

Deloitte fined
£900,000 by
watchdog over SIG
audit failures

LIVE

**BREAKING
NEWS**

*Fines Against
Internal Auditors
Raise Serious
Questions*

PwC fined nearly
£1.8m over BT fraud
audit failures

CONTEXT - LOCALLY

- *“I think that for us as regulators it underscores the absolutely crucial role of having a robust and capable internal audit function in every financial institution and it is important that the internal audit function is restored to its place or primacy,”* Mr. Richard Byles, Bank of Jamaica (BOJ) Governor noted.

<https://boj.org.jm/boj-insists-on-stringent-internal-auditing-for-all-financial-institutions/>

- “The auditors will not escape scrutiny in this matter and the procedures used to provide audits will not escape scrutiny.” Finance Minister Nigel Clarke

<https://jamaica-gleaner.com/article/news/20230201/clarke-raises-questions-about-ssl-external-audit>

PERCEPTIONS VS REALITY

Auditor	Perception	Reality
Internal	A necessary evil	Together important components of an effective risk management and governance framework.
External	A necessary expense	

Auditor	Perception	Reality
Internal	Less rigorous and less objective	Both are professionals who have to adhere to objective standards of performance and code of ethics
External	More rigorous and more objective	

REASONS FOR PUBLIC PERCEPTION



Three (3) gaps
explain this current
context:

- Expectations
- Performance
- Reasonableness

EXPECTATIONS GAP

- The difference between what the public or stakeholders expect from auditors and what auditors are actually responsible for.
- It arises from the misunderstanding or misalignment of expectations between auditors and the users of financial statements

SOLUTION: Educating the public about the limitations and objectives of an audit

PERFORMANCE GAP

- The difference between the actual quality of an audit and the expected quality.
- It arises when auditors fail to meet the required professional standards in conducting an audit

SOLUTIONS: Auditors need to:

- a) continuously enhance their skills and knowledge,*
 - b) maintain independence and professional scepticisms, and*
 - c) ensure proper quality control processes are in place*
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REASONABLENESS GAP

- The difference in judgment between auditors and the preparers of financial statements regarding accounting estimates and subjective matters.

SOLUTIONS:

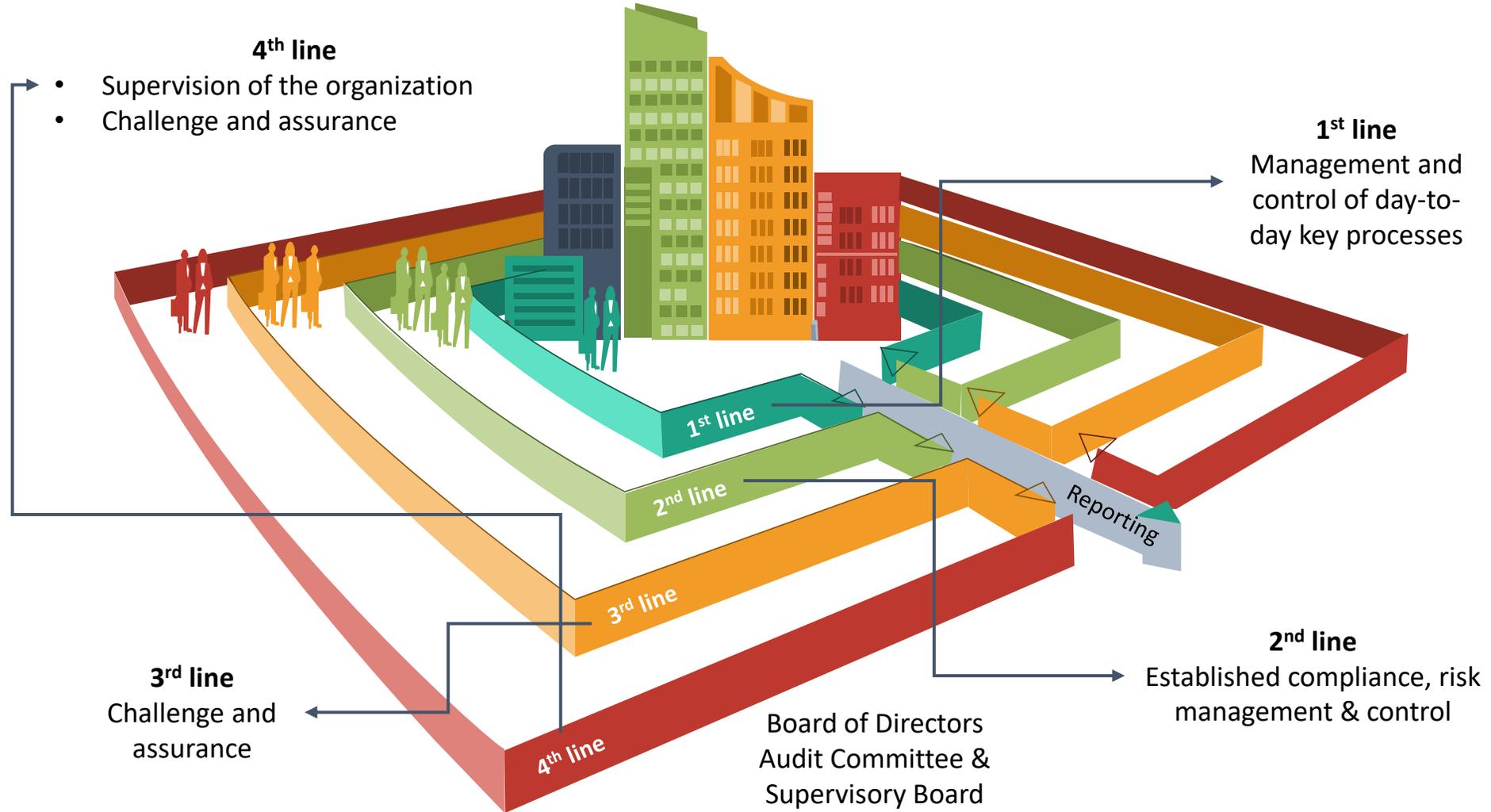
- a) open communication
 - b) a thorough understanding of the assumptions and methodologies used by management in making these estimates.
 - c) enhancing the transparency of disclosures in financial statements can provide greater clarity to stakeholders.
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A green rectangular sign with rounded corners and a white border, mounted on two metal poles. The sign features the text "WELCOME TO REALITY" in bold, white, sans-serif capital letters. The background is a clear blue sky with light, wispy clouds.

**WELCOME TO
REALITY**

4 LINES OF DEFENSE

Understanding the respective roles of External & Internal Auditors



KEY DIFFERENCES



Purpose



Focus



Scope



Audience



Skills



Employment
Relationship

INTERNAL VS EXTERNAL AUDIT

Internal Audit Compared to External Audit

	Internal Audit	External Audit
Scope of work	Organizational operations	Financial records
Focus	Enhance and protect organizational value	Fair representation of financial statements
Timing	Continuous	End of Year or Quarter
Range of risks	Broad	Narrow
Perspective	Historical & the Future	Primarily Historical Data
Issue description	Both non-quantifiable and quantifiable	Quantifiable
Primary audience	Board, executive management	Investors, public interests
Materiality focus	Efficiency, customer service, continuity, etc.	Financial reporting

To be Continued...

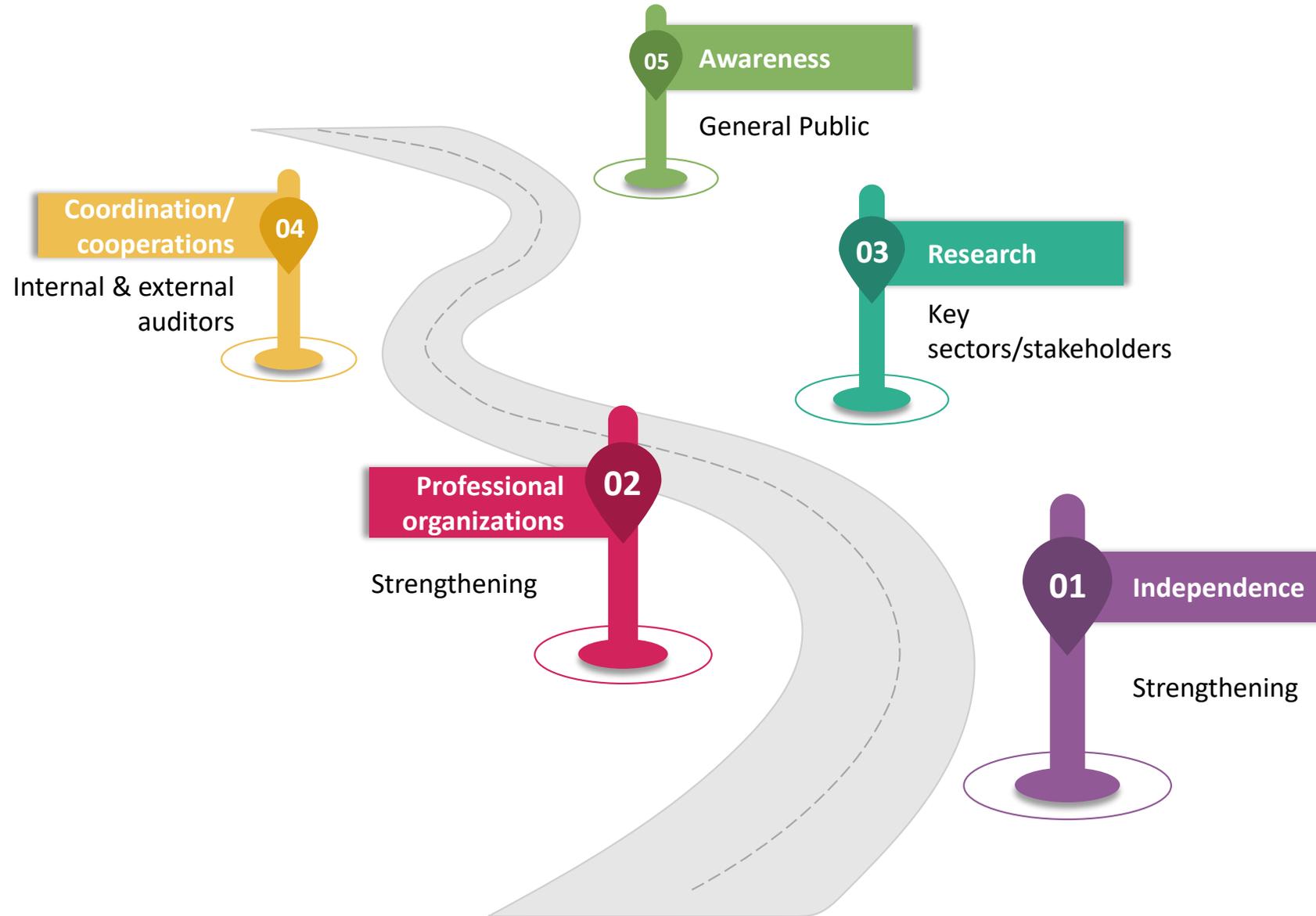
INTERNAL VS EXTERNAL AUDIT

Internal Audit Compared to External Audit

	Internal Audit	External Audit
Skills	Interdisciplinary	Accounting, finance, tax
Employment relationship	An organization's employee	A contracted third party
Methodology	Risk-based system-based audits, assurances, and consulting work	Vouching and Verification and some use of risks-based system approach
Reports goes to	Management and Audit Committee	Shareholders, Board of directors & Audit Committee
Qualifications	Not mandatory	Mandatory
Licensing	No	Yes
Size	Mainly larger organizations	All registered companies and public sector (small companies)

ROADMAP

THE WAY FORWARD



WAY FORWARD

1. Strengthening the independence of the auditor
 - Periodic rotation of external auditor partner
 - Avoiding having only a few large clients (diversification)

 2. Strengthening the role of professional organizations:
 - Standards of audit performance
 - Relevant Code of Conduct
 - Continuing Professional Education
 - Verifying compliance via quality control programmes (Practice Monitoring)
 - Rigorous system of accountability
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WAY FORWARD

3. Researching the expectations of key sectors – financial, information technology, etc. and other users of audited financial statements.

 4. Greater coordination and cooperation between external and internal auditors may result in:
 - More comprehensive coverage of audit work
 - Better distribution of audit work in a way that is of benefit to the organization and result in greater efficiencies & enhanced overall effectiveness
 - Elimination of duplicated effort
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WAY FORWARD

3. Increasing awareness of the general public and users of financial statements regarding the nature of the accounting & auditing





QUESTIONS