



An external audit perspective

IIA Hungary conference

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Setting the stage

Auditing standards

External auditor has sole responsibility for their audit strategy and opinion

- ROMM; testing; sufficiency of audit evidence; judgements

However we can use either:

- The work of the internal audit function; or
- Direct assistance from internal auditors

Must evaluate internal audit's stature within the organization

- “Performed by an objective and competent function that applies a systematic and disciplined approach including quality control”
- Skill set, capabilities, responsibilities
- No conflicting responsibilities e.g. management duties

How internal audit helps us

In general we can use internal audit 3 (maybe 4) ways:

Obtain information relevant to our risk assessments

- Halo effect

Use work performed in partial substitution for audit evidence obtained directly by us

- Read IA reports; gather information; don't reinvent the wheel
- If IA is missing or ineffective: may impact audit coverage

Direct assistance under our direction, supervision and review

- E.g. control testing; process descriptions, flowcharts; detailed testing

Help get stuff fixed that's broken

- Watch out: business waits for IA to rescue them; push costs to IA

Challenges for audit support

- **Regulators restrict support to lower risk, less judgemental areas (not very exciting . . .)**
- **Trained resources understanding external audit objectives including documentation**
 - If not focused on financial reporting, no reliance
- **Need for external auditor to re-perform procedures**
- **May not always result in fee savings**
 - IA justifying its existence
 - Co-ordination effort
- **Now you see them, now you don't . . .**

Factors for success

Understanding key stakeholder: Audit Committee Chair

- Max alignment versus another view
 - Healthy reporting process with IA and EA
- Eager for 3rd party perspective on their company, people and financial reporting
- Enterprise risk assessment with link to audit risks
 - Risk dependencies
 - Judgemental areas; estimates; sensitivities
- Try to avoid surprises – early identification of issues

Communication throughout the year

- Synchronization of effort; planning; findings

Solve process and other issues affecting the external audit

- PBC delivery
- Documentation of processes and internal controls
- Managing company internal channels and expectations at delivery level
- Understand drivers of audit effort and be catalysts for improvement

Factors for success (cont'd)

Many ex-external auditors (Big 4) in IA roles

- Leverage experience
- Maintain training and skills
- Healthy direct reporting lines (AC; TCWG)

Good CFO looks to: controller, internal audit, and external audit



Thank you