

# **Internal Audit's Role** ***Guarding the Public Trust*** ***and Auditing for Integrity***

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# Presentation Overview

- The unique nature of government auditing
- Internal audit's role in preventing and detecting fraud and corruption
- Auditing for Integrity – Culture
- Parting thought



# The Unique Nature of Internal Audit in Government

- Missions
- Stakeholders
- Processes and standards
- Operating environment
- Definitions of success



# The IIA's View:

**“An effective public sector audit activity strengthens governance by materially increasing citizens’ ability to hold their public sector entity accountable.”**

*Source: Supplemental Guidance: “Public Sector Definition and the Role Of Auditing in Public Sector Governance,” © 2012 The Institute of Internal Auditors*

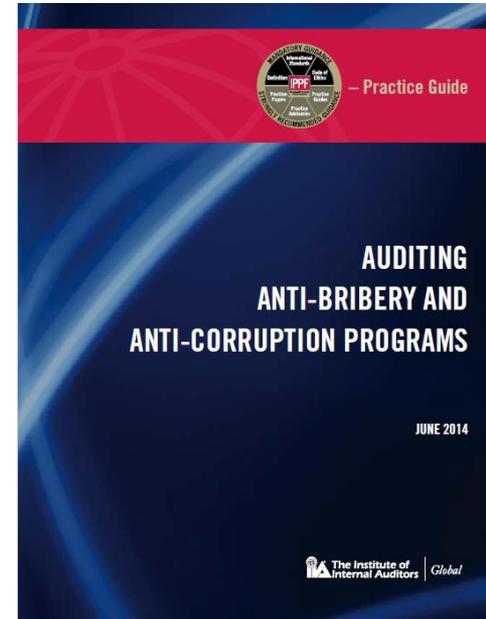
# The IIA's View: Essential Elements for Public Sector Audit Organizations

1. Organizational independence
2. A formal mandate
3. Unrestricted access
4. Sufficient funding
5. Competent leadership
6. Objective staff
7. Competent staff
8. Stakeholder support
9. Professional audit standards



# The IIA's View of Fraud and Corruption

- **Fraud:** any illegal act characterized by deceit, concealment, or violation of trust.
- **Corruption:** The misuse of entrusted power for private gain.
- “Auditing anti-bribery and anti-corruption programs requires a team of auditors with collective skills, knowledge, and expertise in compliance, fraud, investigations, regulatory affairs, IT, finance, culture, and ethics.”



# Internal Auditing of Fraud and Corruption

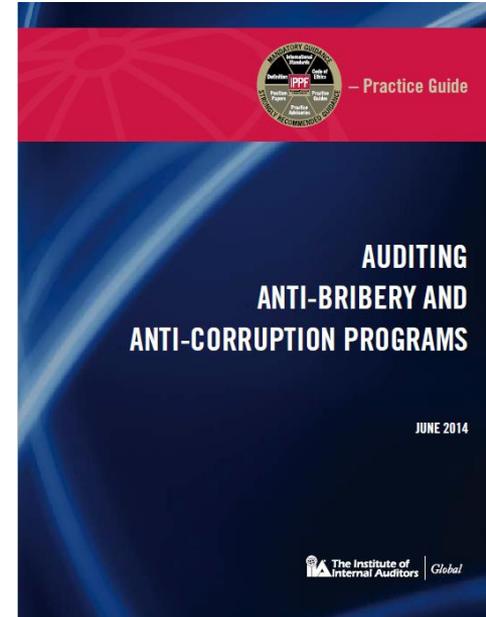
- Internal audit should assess the effectiveness of anti-bribery and anti-corruption programs to help:
  - anticipate the risk,
  - and identify the existence of potential and actual incidents.
- Two different, but complementary, approaches:
  - Auditing each component of the anti-bribery and anti-corruption program.
  - Incorporating an assessment of anti-bribery and anti-corruption measures in all audits, as appropriate.

## Hallmark components of effective anti-bribery and anti-corruption programs:

- Tone at the top,
- Governance structure,
- Risk assessment,
- Policies and procedures,
- Training and communication,
- Monitoring
- Auditing and investigations
- Enforcement and sanctions,
- Reviews and updates.

# High Risk Areas for Bribery and Corruption

- **Geography and industry**
- **Hiring and employment**
- **Third-Party and Vendor management**
- **Gifts, Entertainment, and political contributions**
- **Procurement**
- **Sales**
- **Finance**
- **Information technology**
- **Senior Management**



# The Impact of Culture on Fraud and Corruption

**A toxic culture  
presents a perfect  
breeding ground  
for fraud and  
corruption!**





# A Simpler Definition of Culture

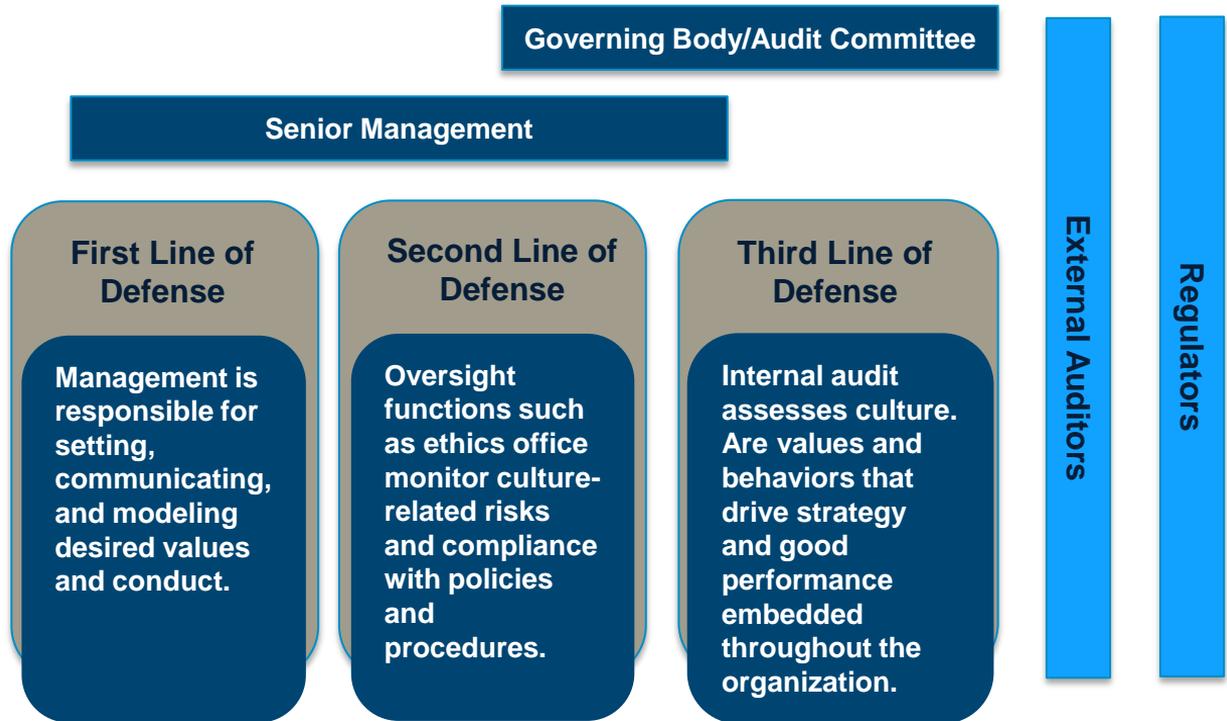


Culture is “how we do things around here.”

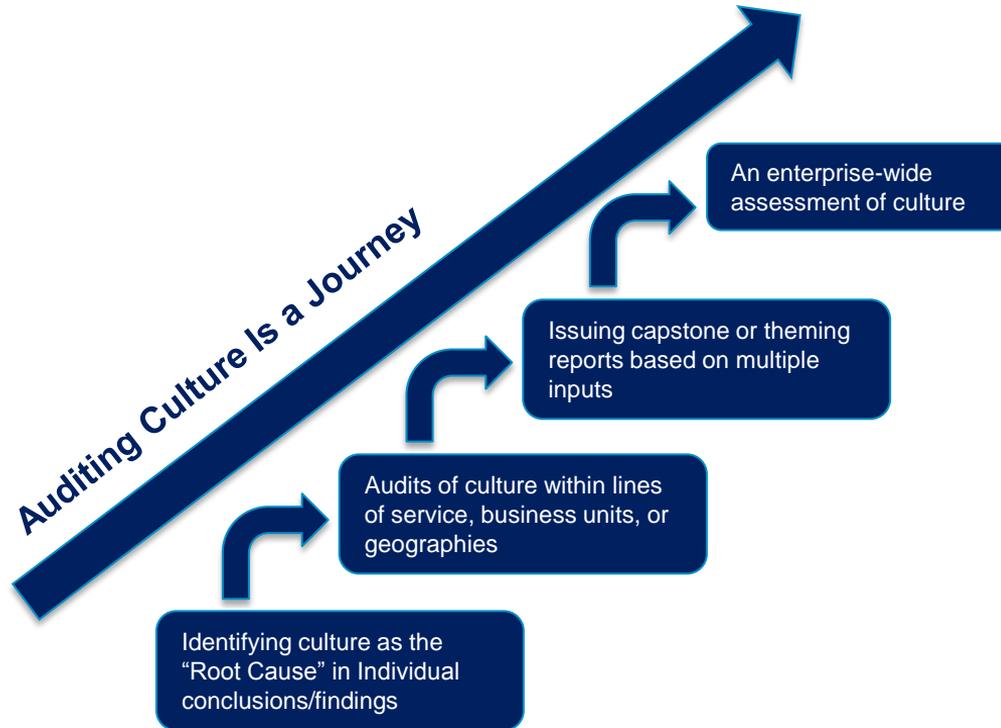
# When Walk Diverges From the Talk, Culture Can Go Toxic



# Three Lines: Defending the Organization Against Cultural Risks



# Strategies for Auditing Culture



# The “Root Cause” Can Often Be Culture

It is tempting to only look at specific issues and how to correct them.

Did certain behaviors cause the problem?

Is culture a fundamental root cause?

- When controls fail
- When risks aren't managed
- When regulations or laws are violated



# Parting Thought: Words to Live By

“With light comes heat, and with heat comes action, and action is what we want. How can we make government work better? By improving the economy, efficiency, and effectiveness of government.”

*David M. Walker*  
*Former Comptroller General of the United States*

# Thank You!

## The Institute of Internal Auditors

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