**Internal vs. External**

[Internal auditors](https://www.careersinaudit.com/jobs/internal-auditor/) work within an organisation and report to its audit committee and/or directors. They help to design the company’s organising systems and help develop specific risk management policies. They also ensure that all policies implemented for risk management are operating effectively. The work of the internal auditor tends to be continuous and based on the internal control systems of a business of any size.

[External auditors](https://www.careersinaudit.com/jobs/external-auditor/) are independent of the organisation they are auditing. They report to the company’s shareholders. They provide their experienced opinion on the truthfulness of the company’s financial statements and perform work on a test basis to monitor systems in place.

**The Differences**

There are three key differences in the activities of internal and external auditors. Each is discussed in depth below:

**Appointment**  
External auditors are appointed by the shareholders of a company, although this usually comes through discussion with directors. External auditors must be appointed from a different company independent of their own whilst internal auditors are usually employees of the organisation. [Keeping clients happy as an external auditor](https://www.careersinaudit.com/article/tips-for-maintaining-happy-clients-as-an-external-auditor/) is often more difficult than internally as you already know those around you in the second instance.

**Objectives**  
The objectives for an external auditor are usually defined by statute whilst management will set the objectives for internal audits. External auditors generally have free reign to examine and assess every aspect of the system whilst management can pinpoint and highlight certain areas they want internal auditors to focus on. There are various types of internal audit.

***Responsibility***  
External auditors are responsible to the owners of the company which could be anybody from its owners to the shareholders to the government or general public. Internal auditors are responsible solely to the company’s senior management.

Internal audit departments can be major contributors to the effectiveness of governance, risk management, and internal control processes, but they need to focus on the areas of highest risk, perform their services effectively, and clearly communicate the results of their work. An external review of the internal audit function can validate the quality of the unit and ensure a clear alignment of expectations among the audit committee of the board, the college or university’s senior leadership, and the internal audit leader. The question of “Who audits the auditor?” characterizes and reinforces the argument that every auditor should embrace having such a review on a regular basis.

A quality assessment review, or QAR, provides an occasion to consider opportunities to improve the internal audit function. The outcome of the review may provide a roadmap for agreed-upon changes to increase the value of that function to all its stakeholders, including the department itself, senior leadership, and the board—especially the audit committee.

Many internal audit departments overwhelm audit committee members with detailed reports, assuming the trustees can weed out the most important information. Internal audit departments usually present the annual audit plan for audit committee approval, but they may not present updates on changes to the plan or actual completion information. It is crucial that internal audit professionals clearly communicate the impact of their activities.

It is good practice for those who serve on a governing board to ask the following questions:

* Is the internal audit function adding value? Are metrics in place to evaluate those expectations?
* Have all parties agreed where internal audit might add value and focus its efforts?
* Are responsibilities for risk, compliance, and internal audit well delineated?
* Is internal audit proactively involved in change?
* Has internal audit ever had an external review? If so, how broad was the scope and how engaged was the audit committee with that process?
* **The Importance of Quality Assessment**
* Internal audit functions evolve over time, and choices are made that impact the range of services that the internal auditors provide. While it is true that audit committees approve the internal audit charter and annual plan, few audit committee members have the experience to suggest different approaches. Similarly, senior institutional leaders may have reservations about suggesting new ideas or areas of emphasis in the annual audit plan. And, for his or her part, the director of the internal audit function, or chief audit executive, may be reluctant to revisit decisions made in the past. The external review can be the impetus to agree on the key areas of focus for the internal audit staff.
* An external quality assessment review provides a great opportunity for an internal audit director to benchmark with, and gain insights from, a team of experienced internal auditors from other organizations who can share effective tools and techniques. Benchmarking internal audit activity can also help establish metrics. These metrics will indicate improvement in areas of partial conformance or nonconformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*established by the Institute of Internal Auditors (IIA), the recognized authority in the field, with more than 180,000 members serving in 160 countries around the world. Many internal audit functions have not had an external review despite the fact that one is required to be in full compliance with the standards of the profession.

There are two approaches for meeting the requirement of the IIA’s (Institute of Internal Auditors) *Standards* for conducting a quality assessment review:

* **Full External Assessment.** This method uses a qualified, independent team led by an audit expert. Team members should also be competent professionals who are well-versed in the *Standards*, assessment methodology, and successful internal audit practices. The assessment team works on site at the headquarters of the internal audit activity, using the *Manual* to conduct interviews, surveys, benchmarking, and a review of work papers. The assessment team also drafts a report stating the internal audit department’s conformance or nonconformance to the *Standards* and providing any recommendations for improvement.
* **Self-Assessment with Independent Validation.** This method begins with the internal audit function performing a self-assessment of its compliance with the *Standards*. A competent independent evaluator who is well-versed in quality assessment methodology then comes in to validate that self-assessment. In addition to reviewing the self-assessment and substantiating the work done by the self-assessment team, the evaluator makes an on-site visit, interviews senior management, and issues a separate report. Although this approach requires a significant amount of the internal audit function’s time to perform the self-assessment, it can save on the review costs and be more economical than a full external assessment while still meeting the requirements of the *Standards*.

**A Closer Look**

An internal audit is designed to look at the key risks facing the business and how the business is [managing those risks effectively](https://www.careersinaudit.com/article/the-importance-of-risk-management-in-an-organisation/). It usually results in recommendations for improvement across departments. Both financial and non-financial elements are usually included and the company’s reputation may be a factor which is assessed.

An external audit focuses on finance and the key risks associated with the business’ financial business. They are usually performed on at least an annual basis to provide the annual statutory audit of the financial accounts. This audit is designed to show whether the accounts are a true and fair reflection of where the company sits financially. External auditors will evaluate all the internal controls put in place to manage financial risk to assess whether they’re working effectively.

Working in the auditing sector is always challenging and whether you work as an external or internal auditor you will face plenty of career challenges. Many people opt to work in internal roles to have the camaraderie and rapport of working with a single company whilst others enjoy the variety of work they come across in an external role where every day is different.