

Factsheet: Coordination and Reliance

What is Coordination and Reliance?

Coordination can be defined as:

Different elements working together effectively.

Reliance can be defined as:

Placing trust in something.

What are Assurance Providers?

Assurance is a process that provides a level of confidence that objectives will be achieved within an acceptable level of risk.

Key attributes of assurance are:

- › It is a positive declaration intended to give confidence.
- › It is designed to improve the quality of information to aid informed decision-making.
- › But mainly, it is designed to tell us if corporate governance is working properly.

An assurance provider is therefore an activity that provides assurance through evidence gathering, review and formulating a conclusion on assurance effectiveness.

Organisations have many assurance providers – this is often called the 3 Lines where assurance providers are located at Line 1, Line 2 and Line 3 – refer diagram below.

How does this apply to the Internal Audit Standards?

Internal Audit Standard 2050 ‘Coordination and Reliance’ states:

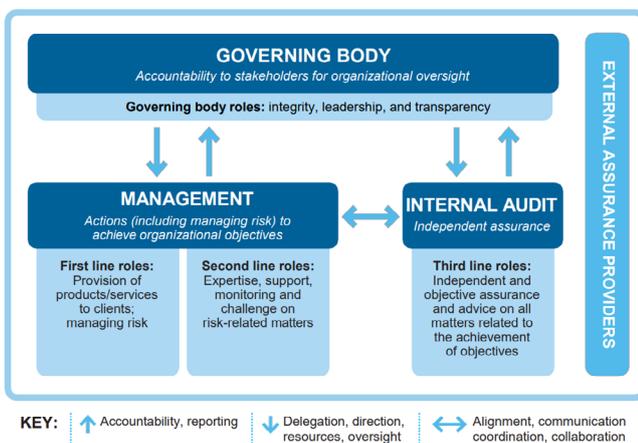
The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

The Interpretation for Standard 2050 contained in the Internal Audit Standards says:

In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should consider the competency, objectivity, and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

This means internal audit may not need to provide assurance services over business activities where reliance can be confirmed for assurance activities already in place and operating effectively in Line 1 or Line 2. What internal audit may do in those situations is to confirm effective assurance is operating rather than auditing the business activity itself.

The IIA’s Three Lines Model



History

A forerunner of this concept was external audit coordinating with internal audit each year to see if they could place reliance on the work of internal audit. This was usually achieved by the external auditor meeting with internal audit before the financial statement audit process commenced and ascertaining where they could work together and avoid duplication of audit effort. In some organisations, this extended to internal audit actually performing work on behalf of the external auditor.

This arrangement had potential to save external audit time and the organisation money on its external audit fee. These days the internal audit risk-based plan is more likely to focus on business activities in non-financial areas and for external audit to rely on very little (if at all) internal audit work.

Sourced from *The IIA’s Three Lines Model - An update of the Three Lines of Defense*

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Coordination – Assurance Mapping

These days, internal audit will generally meet with other assurance providers from time-to-time, and especially when the internal audit plan is being developed each year.

Steps in the coordination and reliance process would usually be built around an assurance mapping exercise:

Step 1 – Identify the assurance providers

Assurance providers are generally categorised as:

- › Internal assurance providers – from inside the organisation – Line 1, Line 2, Line 3.
- › External assurance providers – from outside the organisation – external audit, regulators, etc.

Step 2 – Build a 3 Lines model

List the assurance providers in a diagram according to where they fit in the 3 Lines model – Line 1, Line 2, Line 3, external to the organisation.

Step 3 – Prepare an assurance map and rate effectiveness

This will generally include:

- › Business and support activities or risk categories.
- › Current risk rating.
- › Effectiveness rating of Line 1, Line 2, Line 3, external assurance (those that apply to particular business activities).
- › List of past assurance activities.
- › Rating – priority for improvement or further assurance.
- › Improvement actions to be implemented – may be a Line 1 or Line 2 assurance activity or a Line 3 internal audit activity.

Step 4 – Validate the assurance map with stakeholders and develop improvement actions

Discussions should be held with management across the organisation to get agreement on what is contained in the assurance map:

- › Defined activities.
- › Ownership of those activities.
- › Assurance effectiveness ratings.
- › What improvement actions will be implemented where an assurance effectiveness rating is not at a level where it should ideally be.

Step 5 – Develop an assurance plan and an internal audit plan

Rather than just using an assurance map to inform development of the internal audit plan, an assurance plan can also be developed to assign relevant governance and assurance improvement actions to responsible line managers. This increases transparency and visibility of

assurance accountabilities and provides maximum value from an assurance mapping exercise. Therefore, the two deliverables from an assurance mapping exercise should ideally be:

- › Assurance plan.
- › Internal audit plan.

A formal integrated assurance schedule could also be developed to more effectively plan and coordinate the overall assurance approach across the organisation.

Step 6 – Periodically evaluate assurance provider effectiveness

Risk-based review of Line 1 and Line 2 assurance providers should be included in the internal audit plan from time-to-time to evaluate their effectiveness.

Assessing Reliance

Reliance factors can include:

- › Objectivity – does the assurance provider have conflicts of interest (actual, perceived or potential) and have they been disclosed?
- › Independence – do the assurance provider's reporting relationships impact on their independence to perform their assurance role?
- › Competency – is the assurance provider sufficiently competent to perform their assurance role?
- › Due Professional Care – does the assurance provider exhibit due professional care, for example by using appropriate methodology, standards, etc.
- › Objectives and scope – are the objectives and scope of the assurance provider's work appropriate to effectively perform their assurance role?
- › Results – do results from the assurance provider's work genuinely improve the assurance environment?

For reliance, based on the above information, is there sufficient evidence the assurance provider's work can be relied upon? Will there need to be re-testing performed?

Benefits

- › Understanding of assurance and related concepts varies and there needs to be an awareness component to a coordination and reliance exercise.
- › It is critical to actively engage with stakeholders if coordination is to be successful.
- › Including an assurance plan as a deliverable from the assurance mapping exercise allows the audit committee and executive management to formally track implementation progress of governance and assurance improvements – this is generally not done in organisations.
- › Executive management get improved oversight of the extent of investment on assurance activities, and if necessary can redesign programs to reduce redundant or duplicate assurance activities.

- › The assurance map and assurance plan would be used to inform annual operational business planning.
- › The answer to assurance improvement is not always an internal audit engagement.

Useful References

The 20 Critical Questions Series 'What Directors should ask about Assurance', IIA-Australia

Factsheet '3 Lines Combined Assurance Model', IIA-Australia

Factsheet 'Combined Assurance', IIA-Australia

Factsheet 'Combined Assurance Maturity Model', IIA-Australia

Case Study 'Assurance Strategy – NSW Health Pathology', IIA-Australia

'Internal Audit in Australia – second edition', IIA-Australia

'International Professional Practices Framework'; IIA Global

Practice Guide 'Coordination and Reliance – Developing an Assurance Map', IIA Global

Practice Guide 'Internal Audit and the Second Line of Defense', IIA Global

Position Paper 'The IIA's Three Lines Model – an update on the Three Lines of Defense', IIA Global Position Paper

Position Paper 'The Three Lines of Defense in Effective Risk Management and Control', IIA Global

White Paper 'Combining Internal Audit and Second Line of Defense Functions', IIA Netherlands

CBOK study 'Combined Assurance – One Language, One Voice, One View', Internal Audit Foundation

GTAG 'Assessing Cybersecurity Risk – Roles of the Three Lines of Defense', IIA Global