MERCURY

Internal Audit Foundations: COSO and Three Lines Model

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Fundamentals of Internal Auditing: Two-Week Foundation for New Auditors is a 2-week course for staff in their first year of assurance work, or moving into it from finance, quality or operations. You follow one engagement from scoping to follow-up and leave with a completed First Engagement File you can reuse. Mercury Training Center delivers this fundamentals of internal auditing course.

About This Course

New auditors often join a team and are sent into fieldwork before they know how an engagement is scoped, tested, written up and closed. You should already read financial statements or business procedures at work. You practice on a guided engagement, with walkthroughs, test sheets, interviews and a draft report built step by step.

Who It Is For

- Staff who have recently joined an assurance or inspection team and carry out fieldwork under supervision.
- Finance, accounting and compliance staff moving into an assurance role.
- Quality and operations staff who review procedures and want a structured engagement method.
- Team leads who supervise new auditors and review their workpapers.
- Board and committee secretariat staff who prepare assurance papers for directors.

This course is not for experienced auditors who already lead engagements, who are better served by an advanced practice course, or for readers seeking external financial statement audit, who need a statutory audit course.

Competencies You Will Build

- Engagement Scoping: setting objectives, scope and criteria for a single engagement.
- Process Walkthroughs: mapping how work flows and where key checks sit.
- Test Design: choosing compliance, substantive or operational tests for each objective.
- Workpaper Discipline: keeping records that let a reviewer reach your conclusion.
- Audit Interviewing: running fact-finding meetings that stay calm under resistance.
- Finding Writing: turning exceptions into condition, criteria, cause, effect and recommendation.

What You Will Be Able to Do

By the end of the course you will be able to:

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- Given an organization chart and prior reports, draft a one-page engagement planning memorandum.
- From a procedure manual and a walkthrough, produce a flow diagram and a controls documentation matrix.
- Using a population of transactions, select an attribute sample and extrapolate the results.
- From completed test sheets, decide which exceptions are reportable and rate their significance.
- Given a set of findings, draft the exit meeting agenda and the final report sections.
- Using an agreed action list, set up a follow-up tracker for management responses.

Course Content

Day 1: The Role of Assurance in an Organization

- Definition and Purpose of Internal Auditing Under the IIA Global Internal Audit Standards
- The IIA Three Lines Model Applied to a Mid-Size Organization
- Internal Versus External Audit Roles in Year-End Reporting
- Assurance, Compliance and Operational Engagement Types
- Charter, Independence and Reporting Lines of an Assurance Function

Day 2: Governance and the Control Environment

- COSO Internal Control Integrated Framework Components in Daily Operations
- Management Responsibilities for Controls Versus Auditor Responsibilities
- Preventive, Detective and Corrective Checks in Purchasing and Payroll
- Control Environment Indicators Read from Policies and Delegations
- Corporate Governance Policies That Support Adequate Controls

Day 3: Exposure Assessment and the Annual Plan

- Identifying High-Exposure Processes with a Simple Scoring Matrix
- Alpha and Beta Audit Risk and the Audit Risk Calculation
- Building a Long-Term Coverage Plan from Control-Based Assessments
- Prioritizing Engagements Against Available Auditor Days
- Linking the Coverage Plan to Strategic and Tactical Objectives

Day 4: Scoping a Single Engagement

- Engagement Planning Memorandum for an Individual Assignment
- Setting Objectives, Scope and Criteria for a Procurement Review
- Opening Conference Agenda and Information Request Lists
- Preliminary Survey of Prior Reports and Known Issues
- Finalizing Engagement Objectives with the Process Owner

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Day 5: Documenting How the Work Flows

- Walkthrough Interviews to Understand a Work Process
- Process Flow Diagrams and Process Maps for Accounts Payable
- Controls Documentation Matrix Linking Steps to Checks
- Evaluating Control Design Gaps Before Testing
- Analytical Review of Trends and Ratios as a Scoping Aid

Day 6: Gathering and Testing Evidence

- Sufficient, Reliable, Relevant and Useful Evidence Criteria
- Compliance, Substantive and Operational Tests and How to Choose Among Them
- Test Sheets for Vouching, Tracing, Recalculation and Observation
- Documenting Analytical Reviews in Workpapers
- Workpaper Standards That Support Conclusions and Recommendations

Day 7: Sampling for New Auditors

- Statistical Versus Judgmental Sampling and When Each Fits
- Defining Sampling Plan Objectives, Population and Tolerable Deviation
- Attribute Sampling Applied to Expense Claims
- Extrapolating Sample Results to the Population
- Selecting a Sample with a Spreadsheet Random Number Function

Day 8: Interviews and Working with Auditees

- Interview Planning Framework: Prepare, Conduct, Evaluate
- Active Listening and Non-Threatening Questioning in Fact-Finding Meetings
- Overcoming Resistance and Handling Conflict with Line Managers
- Negotiating Agreed Actions Toward a Yes
- Confidentiality of Information Gathered During Fieldwork

Day 9: Reporting and Follow-Up

- Writing Findings with Condition, Criteria, Cause, Effect and Recommendation
- Exit Conference Planning and Management Responses
- Final Report Structure and Distribution Within the Organization
- Post-Engagement Reviews and Follow-Up Trackers
- Internal Controls Updates for Boards and Emerging Issues for the Coming Plan

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Day 10: Practice on a First Engagement

- Scoping Exercise on a Supplier Payments Engagement
- Walkthrough and Matrix Exercise on a Payroll Cycle
- Sample Selection and Testing Exercise on Travel Expenses
- Finding and Exit Meeting Role-Play Exercise with a Resistant Manager
- Completing Your First Engagement File and Peer Review of Workpapers

Case Studies and Exercises

The items below are suggested activities.

- Case study: a hospital pharmacy store shows stock differences; you scope the engagement and choose tests for receipts and issues.
- Case study: a public utility pays suppliers without matched receipts; you document the payment flow and rate the design gap.
- Exercise: a manufacturing company's expense claims; you select an attribute sample and report the deviation rate.
- Exercise: a bank branch cash-handling review; you write two findings and agree actions in a mock exit meeting.

What You Take Back

The First Engagement File is a set of templates you complete on a guided case and then reuse on your own assignments. In your first month back you use it to scope your next engagement, structure your workpapers and show your supervisor how you reached each conclusion.

- An engagement planning memorandum and information request list.
- A flow diagram and controls documentation matrix.
- Test sheets with a sample selection record.
- A findings sheet, report outline and follow-up tracker.

Quick Answers FAQ

What should I know before a fundamentals of internal auditing course?

No prior auditing experience is needed. You should be comfortable reading basic financial statements or written procedures and using a spreadsheet, since sample selection and test sheets are worked in one.

How does a fundamentals of internal auditing course for new auditors differ from a shorter practitioner course?

It runs two weeks and starts from the role and governance of assurance, then walks a full engagement step by step with guided practice. A shorter practitioner course assumes you already run fieldwork and moves faster through evidence and reporting.

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What does a new internal auditor do in the first engagement?

A new internal auditor usually documents the process through walkthroughs, runs the tests the senior has designed, keeps workpapers that support each conclusion and drafts findings for review. Scoping and the exit meeting are often shared with the engagement lead.

What do I take back from fundamentals of internal auditing training?

You take back a completed First Engagement File: planning memorandum, flow diagram and controls matrix, test sheets with a sample record, findings sheet, report outline and follow-up tracker, ready to reuse on your next assignment.

For Your Manager

After the course, the team member will be able to scope a single engagement, document a process, test it with a defensible sample and write findings that a reviewer can follow. They return with a completed First Engagement File, first used on their next assigned engagement and in workpaper review with their supervisor.