



Factsheet: Internal Audit Strategy

What is an Internal Audit Strategy?

An internal audit strategy can be defined as:

The strategy adopted to set internal audit up as a key agent of change delivering the right internal audit services aligning with contemporary internal audit practice and meeting stakeholder expectations.

The Institute of Internal Auditors–Australia

It provides a firm foundation for the internal audit function to “enhance and protect organisational value” in line with the mission of internal audit defined in the ‘International Professional Practices Framework’ (IPPF) issued by the Institute of Internal Auditors (IIA).

An internal audit strategy also ensures internal auditors are well-positioned to demonstrate the ‘Core Principles for the Professional Practice of Internal Auditing’ contained in the IPPF. Some longstanding and well-established principles may need minimal attention in the strategy, whereas others might require incremental changes to be identified and developed as the following example shows:

Core Principles for the Professional Practice of Internal Auditing

1. Demonstrates integrity
2. Demonstrates competence and due professional care
3. Is objective and free from undue influence (independent)*
4. Aligns with the strategies, objectives and risks of the organisation *
5. Is appropriately positioned and adequately resourced
6. Demonstrates quality and continuous improvement
7. Communicates effectively*
8. Provides risk-based assurance*
9. Is insightful, proactive and future-focused*
10. Promotes organisational improvement*

* Principles that may require incremental improvement

Internal Audit Strategy versus Internal Audit Plan

Internal Audit Standard 2010 ‘Planning’ requires “*The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation’s goals.*”

Internal auditors play a key role in enhancing and protecting organisational value and helping organisations accomplish their objectives. They achieve this through well-founded

planning which is generally developed through the core pillars of consultation, analysis and research. As key inputs, internal audit plan development generally utilises:

- › The organisation risks and risk appetite as the basis for audit planning.
- › An audit universe or risk universe of all areas or activities that could potentially be audited throughout the entire organisation (audit topics).
- › Assurance mapping.

This generally results in (a) Internal audit plan for one year (b) Internal audit strategic plan for three years (c) Or both.

However, there is little available reference material on what is an ‘internal audit strategy’.

An internal audit strategy is linked to internal audit foundational elements, rather than being a plan showing what will be audited. It lays out the strategy adopted that sets internal audit up as a key agent of change delivering the right internal audit services aligning with contemporary internal audit practice and meeting stakeholder expectations. It includes a forward development plan to show the steps internal audit will take to improve its services and operations.

An internal audit strategy is a separate document from an internal audit plan or internal audit strategic plan showing what will be audited.

Internal Audit Vision

The first step in determining the internal audit strategy is establishment of an internal audit vision in consultation with the audit committee and chief executive officer. The vision should reflect where the primary stakeholders expect the internal audit function to be in three to five years. Ideally, the vision will be formalised by inclusion in the internal audit charter.

Why have an Internal Audit Strategy?

Once the internal audit vision has been established, it is essential to develop an internal audit strategy that articulates internal audit strategic priorities and guides internal audit evolution to further support the organisation.

It is important to capture strategic and tactical improvement ideas, then incorporate them into an internal audit strategy that reflects the steps for internal audit to continue evolving its services to the organisation. This becomes a visible illustration of the internal audit ‘end state’. It includes a foreword explanation and should include SMART objectives that are Specific / Measurable / Attainable / Relevant / Time-based.

The next stages of internal audit evolution often benefit from a focused strategy to articulate internal audit strategic priorities with a view to maintaining the momentum, building further capability, embracing leading edge practices and enhancing the view of organisation governance. This may include:

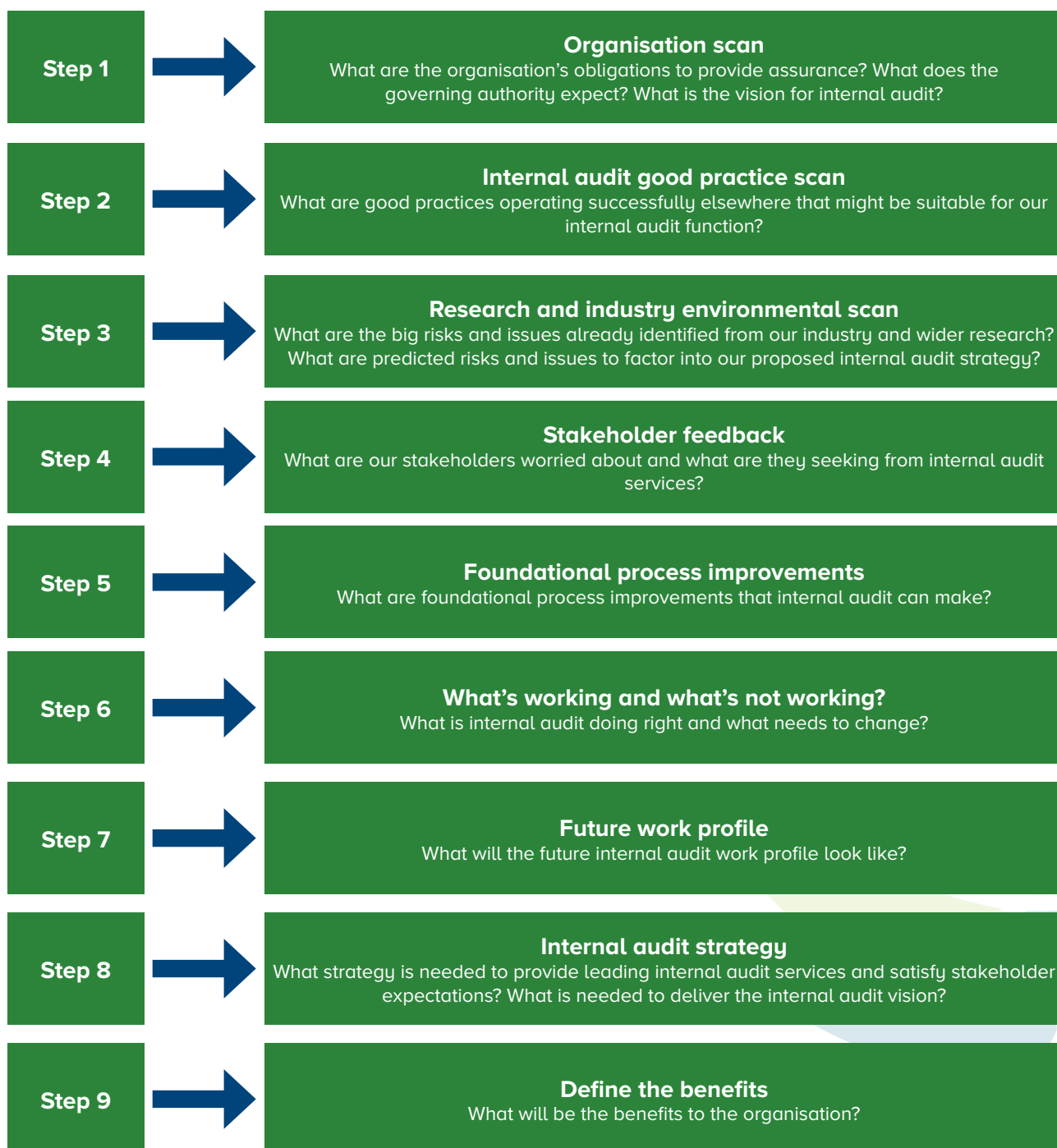
- › A strategic roadmap to enhance and further develop internal audit services and operations.
- › Further stakeholder engagement approaches.
- › What a future internal audit work profile might be to best support the organisation.
- › Developing internal audit capability to support the future the work profile:
 - › Information technology capability required.
 - › Acquisition and development of the necessary skills.
 - › Use of specialist knowledge and skills from

various sources inside and outside the organisation.

- › Knowledge and skill transfer from professional associations, co-sourced internal audit service providers and guest auditors.
- › How internal audit will interact with the other assurance providers in the organisation.
- › Internal audit succession planning.

Developing the Internal Audit Strategy

Internal audit thinking has progressed considerably in the past 10 years since the IIA Global Practice Guide ‘Developing the Internal Audit Strategic Plan’ was published in 2012. So, a more contemporary approach to internal audit strategy development might ‘start with the end in mind’.



Step 1 – Organisation scan

What are the organisation's obligations to provide assurance? What does the governing authority expect? What is the vision for internal audit?

Every organisation has external obligations to provide some forms of assurance. This may include a requirement to provide an annual report to the market, a requirement to provide advice to a regulator, or assurances to a customer about the goods or services provided. These assurances are made by the governing authority to external parties and the governing authority will want internal assurances the statements are correct.

Internal assurances are obtained by the governing authority from a number of sources. An internal audit strategy must take into account the existence of other assurance providers. And an internal audit vision needs to be clearly articulated and understood.

Strategic Foundations

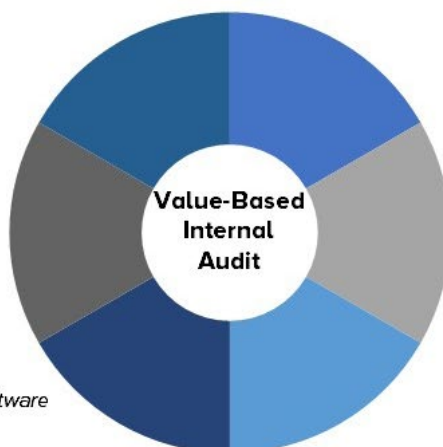
- › Internal audit positioning
- › Internal audit strategic vision
- › Internal audit governance
- › Learning and development
- › Commitment to the IPPF
- › Internal audit strategy

Continuous Improvement

- › Quality assurance and improvement program
- › Performance measures and balanced scorecard reporting
- › Internal audit annual report

Technology

- › Automated audit management software
- › Audit committee secure portal
- › Technology assurance strategy
- › New technologies



Stakeholder Relations

- › Partnership model
- › Advisory services
- › Service catalogue
- › Constant stakeholder feedback

Resourcing

- › Multi-disciplinary team
- › Guest auditors
- › Rotation program
- › Co-sourcing
- › Career and succession planning
- › Performance management

Approach

- › Key agent of change
- › Continuous risk assessment
- › Assurance strategy
- › Integrated auditing
- › Operational auditing
- › Agile audit approach
- › Insightful reporting
- › Audit recommendation monitoring
- › Internal audit work plan

Step 2 – Internal audit good practice scan

What are good practices operating successfully elsewhere that might be suitable for our internal audit function?

The experience of internal auditors can often be limited to the environment in which they operate. And if they stay in one internal audit function for many years, they can be deprived of opportunity to see how internal audit operates in other organisations, industries and jurisdictions. Plus, they can tend to see things from the internal audit perspective and not necessarily from a stakeholder or audit client perspective.

Internal auditors need to be open to changing their work approaches and practices. The IIA-Australia Factsheet 'Value-Based Internal Audit' provides a blueprint for good practice internal audit:

"A methodology where internal auditors perform forward-looking internal audit services to offer insights and actively seek innovation to improve an organisation, seeking to do this from the audit client perspective."

Step 3 – Research and industry environmental scan

What are the big risks and issues already identified from our industry and wider research? What are predicted risks and issues to factor into our proposed internal audit strategy?

Internal auditors should read widely and actively participate in communities of practice with their industry peers in other organisations and perhaps even other countries.

There is little point reinventing something that someone else has already done elsewhere – it is time-consuming and not cost-effective. Chances are you can gather information you are seeking from your industry peers. The IIA-Australia can often facilitate introductions amongst members in similar industries.

Step 4 – Stakeholder feedback

What are our stakeholders worried about and what are they seeking from internal audit services?

Internal audit is a service to the organisation. What we think the organisation needs in the way of internal audit services may not correlate with the requirements of our organisation and stakeholders. Internal audit needs to listen and learn from the business and to provide services that fit are fit-for-purpose. For instance, where formal stakeholder relationship management arrangements are in place, what are the needs of critical stakeholders? Where audit client satisfaction feedback surveys are used, what is the feedback telling us beyond the scores?

Step 5 – Foundational process improvements

What are foundational process improvements that internal audit can make?

An internal assessment against the Internal Audit Standards, or a 5-year independent external assessment, are good ways to make sure your internal audit function has the basics right. We can often be too close to something to see what might be done better. Get ‘fresh eyes’ to look at how your internal audit function is operating.

Step 6 – What’s working and what’s not working?

What is internal audit doing right and what needs to change?

When the internal assessment or external assessment has been completed, improvements can be implemented to make sure the internal audit structural foundations are in place and operating effectively.

But internal audit needs to go further. From the information gathered, we need to work out what internal audit is doing well and also what needs to change for internal audit to become more effective. In essence, what are the current gaps between the ‘future state’ articulated in the internal audit vision and the actual ‘current state’? What steps need to be taken to close the gap?

its services and operations, for example:

Build a better organisation	<ul style="list-style-type: none"> › Internal audit strategic vision › Internal audit as a key agent of change › React swiftly to stakeholder feedback › Internal audit strategy
Achieve satisfied stakeholders	<ul style="list-style-type: none"> › Stakeholder partnership model › Assurance strategy › Service catalogue › Advisory services
Work smarter	<ul style="list-style-type: none"> › Forget the ‘one size fits all’ internal audit approach › Different audit approaches › Multi-disciplinary team › Guest auditors › Rotation program › Co-sourcing › Integrated auditing › Operational auditing › Agile audit approach › Insightful reporting
Technology	<ul style="list-style-type: none"> › Technology assurance strategy › Data analytics
Celebrate success	<ul style="list-style-type: none"> › Performance measures and balanced scorecard reporting › Internal audit annual report including internal audit outcomes reporting

Step 9 – Define the benefits

What will be the benefits for the organisation?

To justify the internal audit change agenda and proposed investment, it is crucial to articulate the benefits the internal audit strategy will deliver.

Step 7 – Future work profile

What will the future internal audit work profile look like?

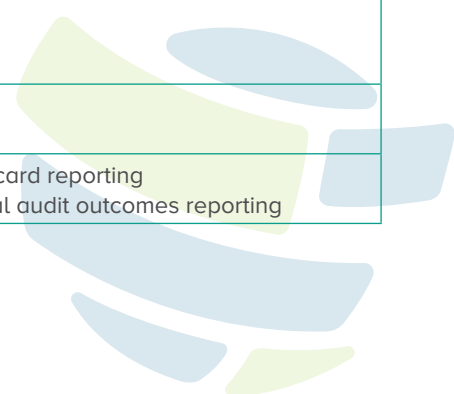
Many internal audit functions have a one-dimensional view of how internal audit operates. Take the internal audit budget and divide it into what an average audit costs equals the extent of internal audit services. This is old fashioned thinking.

The IIA-Australia Factsheet ‘Value-Based Internal Audit’ provides a blueprint for good practice and can be a good place to start when considering what the internal audit work profile might look like in future years. Whatever is determined should help to deliver the internal audit vision.

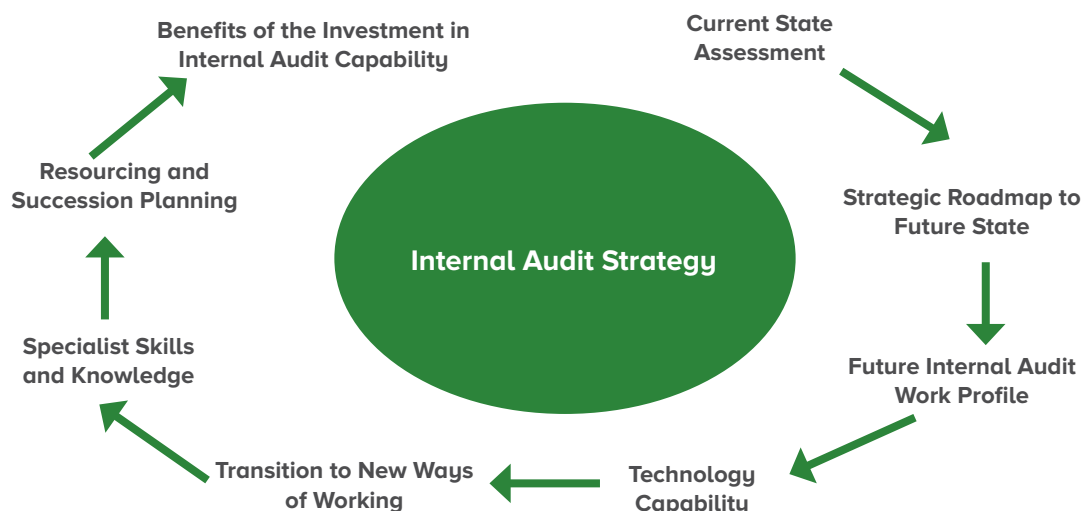
Step 8 – Internal audit strategy

What strategy is needed to provide leading internal audit services and satisfy stakeholder expectations? What is needed to deliver the internal audit vision?

Many internal audit strategies are introspective and focus on the mechanics of internal auditing – not on what internal audit services are going to support and build a better organisation. The internal audit strategy needs to ‘start with the end in mind’ – what internal audit needs to do to better and what it should look like in the future. There should be clarity on how and when progress will be monitored and reported, perhaps using SMART objectives or other suitable qualitative and quantitative measures. This can be complemented with a forward development plan to show the steps internal audit will take to improve



What might an Internal Audit Strategy look like?



The structure of an internal audit strategy could include:

- › Current state assessment.
- › A strategic roadmap (forward development plan) to enhance and further develop internal audit services and operations including SMART objectives and further stakeholder engagement approaches.
- › What a future internal audit work profile might be to best support the organisation.
- › Whether technology capability may be necessary to support a future work profile.
- › What may be necessary to assist transition to new ways of working including targeted professional development.
- › How specialist knowledge and skills from various sources inside and outside the organisation could best be transferred to internal audit managers and staff – this could include knowledge and skill transfer from professional associations, co-sourced internal audit service providers and guest auditors.
- › Resource requirements including specialist people, technology and budget.
- › Internal audit succession planning.

Approval and Monitoring

The internal audit strategy should be endorsed by the chief executive officer and approved by the audit committee. The chief audit executive should then be held accountable for implementation of the plan and delivery of the agreed outcomes. The SMART objectives provide the basis for monitoring and reporting progress to the audit committee.

Useful References

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