The ABC of a professional audit practice – delivering what the audit committee really needs

Bruce Turner
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The views expressed in this article are those of the author and not necessarily those of associated entities or acknowledged contributors.

How do we maximise the value we add to the audit committee and senior management at a time when the business landscape is becoming increasingly complex, and the expectations for professional auditors continues to grow? Follow the ABC of professional practice – attuned, balanced, credible – to really make a difference.

By adopting or modifying the concepts outlined in this article to suit your environment, you will be positioning yourself and your auditing team to meet the needs and expectations of your primary stakeholders – the audit committee and senior management. As you continue to enhance your reputation with your stakeholders, you will be entrusted with more challenging assignments and tasks which will provide greater job enrichment and potentially enhanced career options.

Introduction
When I took up the role of chief audit executive at one entity, I was somewhat taken aback when I found out that the audit committee and senior management were unimpressed with internal audit’s contribution. Before starting the job I had held an informal meeting with some of the senior audit leaders and was pleasantly surprised to see first-hand their interest, ideas, passion and collective strength. We set about to understand how the auditors had become disconnected, and then we strived to change the stakeholder perception.

“If you think you’re too small to have an impact, try going to bed with a mosquito in the room.” Dame Anita Roddick

Firstly, we took steps to increase the exposure of the teams so that they could become more attuned to the business. One of the teams was located in a satellite site some 12 km out of the city centre, so we moved them to the national office. Another team was located behind locked doors within a restricted access area, so we moved them to an open area closer to the business operations. We also explicitly identified our key stakeholders. We took clear action to get to know the stakeholders and their business through a formal stakeholder relationship program. Through our changes we opened the communication channels and became more attuned to what our stakeholders needed and expected.

Secondly, we refocused our audit coverage and sharpened our reporting with a view to providing a more balanced perspective. We were missing the mark. Our audits were taking far too long to complete. Our reports often reminded me of an Agatha Christie novel ... you had to hold out to the end to break the mystery. Many of our recommendations were not accepted outright by management. Critical commentary in reports was not sufficiently balanced to provide the overall context and the associated business challenges. Each audit report was considered as a separate and isolated narrative. There was no higher level analysis of “themes” that provided a broader picture to the audit committee or senior management. Through our changes we ultimately “connected” better through a more balanced approach.

Thirdly, we took steps to reshape the audit team through recruitment and professional development to enhance our credibility. We started by updating our mandate, reshaping our risk-based auditing methodology, strengthening quality control arrangements, and establishing a complementary planning suite. We consulted widely to produce an extensive forward work program, a strategic audit plan, and a professional development plan. We established a strong partnering relationship with our primary professional association, the Institute of Internal Auditors – Australia (IIA). We captured our changes in a balanced scorecard reporting approach that helped to tell the story of our improving credibility.

We ultimately turned the perception around. We delivered the value-added impact that we knew was possible. The audit team is now widely regarded as high-performing. The function is seen as mature. Its overall approach, processes and reporting are representative of world class.

This is an original article that captures the essence of the transformation, and provides a range of practical tips, tools and concepts. It is based on the insights obtained from my own experience, coupled with insights obtained directly from experienced audit committee chairs and members specifically for this article.

You can champion these tips, tools and concepts whether you are an audit committee chair or member, the chief audit executive, a senior audit leader, or a relatively new audit practitioner. They can be equally applied in either a private or public sector setting, and are scalable for large to small audit functions.

Adding value ... it’s as simple as ABC – being attuned, balanced, and credible.

“Some internal auditors have good process developed into an art form where the process is perfect but nothing is ever discovered.” Audit Committee Chair 2011.
Applying the ABC of auditing – picture this for your entity

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<th>ATTUNED</th>
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<tr>
<td>We know what’s really going on. We’re aligned to the entity’s strategic direction. We’re well positioned to help the audit committee achieve the responsibilities of its own charter. We’ve developed a comprehensive forward work program that reflects the entity’s risk profile, and the priorities of senior management. We have a stakeholder relationship program to stay connected, and we’re willing to modify our work program to accommodate emerging issues. We have established audit themes as a basis for enhanced high-level reporting. We get into the business to gain first-hand experience and a better sense of the culture that drives the business and its governance arrangements. Our knowledge champion concept empowers our auditors to become experts in identified fields, so that we remain in tune with business, technical, specialist, and professional changes. We maintain professional outreach with auditors outside our entity to keep abreast of emerging risks and better practices.</td>
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<td>We are highly-capable and well-regarded professionals with an independence of mind. We have explicit support from senior management through a well mandated charter. We comply with professional auditing standards, with a three to five year independent assessment validating conformance. We apply effective quality assurance processes, for each audit and overall, and assert this to the audit committee. We drive continuous improvement through a strategic audit plan, which is founded on better practice concepts and insights from periodic benchmarking of our capability and practices. We monitor our performance through key performance indicators, and report this through a balanced scorecard reporting approach. We strive for excellence and pursue a well-rounded capability through recruitment and retention strategies and our professional development plan. Our stakeholders acknowledge our positive contribution and the value we add to the business.</td>
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<td>We understand our role and are guided by our internal audit charter, whilst helping the audit committee to satisfy its own mandate. Our audit conclusions take into account the internal operating environment and the impact of global events on traditional business drivers. We’re firm and fair in our reporting, and provide a balanced perspective that gives due credit to enhancements driven by management. We tailor our reports to the needs of the audit committee – we keep them short, sharp and succinct, and we are creative in providing visual aids. We are not content to report simply on the results of individual audits, but we report on themes, we consider trends and systemic issues, we provide insights on the culture of the entity, and we form a view on the efficiency, effectiveness and ethics of operations. We monitor overdue audit recommendations, and report on those “at risk” and overall trends. The audit committee, senior management, and other key stakeholders value our contribution.</td>
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The general consensus of audit committee chairs who were consulted for this article is that they expect a proper and defensible “process” in the conduct of audits. But the process needs a range of elements to come together to ensure that there is true discovery of fresh strategic insights that form the basis of value-added recommendations. Some of the fundamental building blocks are illustrated above.

### Attuned – insights

“The head of internal audit should live and breathe the business – not live and breathe auditing.”

The relationship between the internal auditors and the audit committee is one of the most valuable for an effective committee. Internal auditors are usually the primary source of objective assurance and advice. It is essential that the internal auditors understand what their audit committee and other stakeholders need, and consistently meet their expectations.

The responsibilities of audit committees have grown over recent years and their expectations of their internal auditors in supporting them have similarly increased. The success of each is mutually dependent. Another important ingredient is the support of senior management, and their genuine commitment to introducing and maintaining effective governance arrangements.

### Case study 1: Making frontline connections

When I was employed as the chief audit executive at a transport entity, I spent half a day every month shadowing staff who were undertaking frontline services or providing critical business support. This was a requirement for all senior executives. I learned more about the operations, culture, risks, and safety fundamentals of the entity than I could ever have imagined possible. The staff were happy to showcase what they did, and it became a rich learning experience. I was better positioned to have meaningful discussions with the audit committee, senior management and other stakeholders because I had truly experienced the activity “on the ground”.

### Entities usually document their vision, values and business objectives in a carefully constructed strategic planning suite. The board and senior management have an increasing understanding of the enterprise risks, and they have registers and reporting mechanisms that enable them to monitor both current and emerging risks. Legislative obligations are well understood and are usually captured in a suitable compliance register to facilitate monitoring and reporting. All of these ingredients feed into a rich recipe of audits.
the “traditional” areas of internal audit coverage, like financial management. They will be increasingly sought as a source of advice through consulting-type engagements, and they will be positioning themselves to contribute to the enhancement of business processes and business outcomes.

**Balanced – insights**

“I like the way that internal audit asks the right strategic questions and reports on trends and systemic issues rather than just focusing on the results of an audit.”

Audit Committee Chair 2011

Your forward work program needs to adequately address the main risk areas within the entity. Setting the right forward work program is vital, and it’s essential to achieve a reasonable balance across the whole entity and the high risk areas. Whilst most audit activities have always had a plan, these days there’s a need to sharpen the strategic focus. A blended approach is desirable, so that there remains sufficient coverage of the traditional “bread and butter” compliance areas associated with internal auditing, coupled with coverage of performance and strategic areas.

Increasingly, auditors are expected to identify emerging issues and risks for audit committees, and they are well-placed to do so as they see right across the entity. It’s no longer good enough to issue an audit report in the traditional manner and then wash your hands of it. Audit committees need you to help them make the connections, so they understand the trends, systemic issues and reporting themes. They will be seeking your insights on the culture of the entity, together with an opinion of the efficiency, effectiveness and ethics of its operations.

The above expectations are consistent with the content of the International Professional Practices Framework which provides guidance on the nature of internal audit work, covering the three pillars of governance, risk management and control; the framework also contains guidance on audit planning and reporting. The competencies of contemporary internal auditors extend to interpersonal skills, whereby they need the ability to interact with others effectively through attributes like being able to influence, communicate, lead, collaborate and cooperate, manage conflict, and by being a change catalyst.
You will need to be increasingly creative in how you deliver your reports. Don’t write several pages of commentary if you can more easily “paint the picture” through photographs, pictures, illustrations, graphs, video or perhaps a site tour.

Auditors need the right skills to be able to provide a balanced perspective. In addition to business acumen, they need to be able to think strategically, and package their reports creatively. The establishment of a capability framework helps to shape the profile of your auditors of the future.

The audit committee also needs your assurance that management is truly embracing your audit recommendations to achieve sustained improvements to the associated governance, risk and control arrangements. There is also benefit in monitoring the reports of external scrutineers (such as Auditors General) to determine if there are relevant topics that contain “lessons learned” for your entity; internal auditors are well-regarded by audit committees when they undertake this type of benchmarking analysis against the entity’s own processes and controls, and report the results.

Credible – insights

“The credibility of an internal audit function is underpinned by three key pillars – professional excellence, quality of service, and professional outreach.”

Audit Committee Chair 2011

Nothing less than professional excellence will be acceptable to a high-performing audit committee. Professional excellence reflects that you have a contemporary auditing mandate coupled with an independence of mind; you understand and consistently apply professional auditing standards; and you have a credible and capable auditing team that consistently delivers results. The IIA’s Code of Ethics reflects the need for professional internal auditors to apply and uphold the principles of integrity, objectivity, confidentiality and competency. The IIA’s Common Body of Knowledge recognises the importance of auditors at all levels having an understanding of the business.

Case study 2: Art of reporting

Some stakeholders are better able to grasp an issue through visualisation. The inclusion of photographs in a report can prove to be a powerful way of illustrating the issue contextually, or breaking through disputed observations. I have used these to great effect in several entities. For instance:

• before and after images of the cleaning operation of train carriages which demonstrated that the cleaners were not completing the task effectively or reasonably (if at all)
• several images at a “green” entity that showed oil leaking from a disused transformer and its close proximity to the stormwater drains which ran into a vital river system and
• a floor plan with several accompanying photographs that identified the one clear point of physical security vulnerability in an otherwise well-secured perimeter for business critical premises.

The team of auditors should be well-balanced, possessing current skills and an appropriate overall capability to deliver the requirements of the internal audit charter and the forward work program. In particular, the auditors will come from a variety of backgrounds, have relevant industry experience, and the team will reflect a multi-disciplinary skill-set. There will be a mandatory requirement for auditors to maintain continued professional development to stay relevant and there will be strong encouragement for auditors to pursue auditing-specific certifications.

The internal audit function should have sufficient standing within the entity so that the entity’s published annual report contains explicit commentary on internal audit, including its reporting lines, independence, role, level of maturity, and contribution.

Your key stakeholders will demand a high quality auditing service, where your

Case study 3: Recharging a professional culture

The auditing cohort had worked together for a number of years and was in a “comfortable” place. They had been “treading water” for a while, as the rest of the auditing world had moved on. They were out of touch with the auditing profession, and the gaps were starting to show. The auditors themselves were becoming increasingly disenchanted, and were largely operating in silos. The audit committee was becoming increasingly uncomfortable with their approach and the quality and timeliness of their work. Senior management did not see the value of the activity. They were ripe for the picking, and outsourcing became an increasingly attractive option.

Following a change of the Chief Audit Executive, fresh strategies were put in place. These strategies were founded on creating a “learning environment” through selective recruitment, coupled with an investment in continued professional development. Auditors were inspired to undertake post-graduate studies, or to pursue auditing-specific certifications. They reconnected with the IIA and other audit professionals. The culture changed dramatically in a relatively short period of time, and the energy within the team became infectious. The team now has the confidence of the audit committee and senior management; the auditing cohort has been recharged and is delivering great value.
### 10 tools that make a real difference

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<th>Element</th>
<th>How it helps the audit committee</th>
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<tr>
<td><strong>FOUNDATION</strong></td>
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<td>Forward work program with complementary audit manual</td>
<td>Provides a high-level summary of the audits to be conducted over the next one to three years, and the auditing methodology to be applied. Links explicitly to the entity's strategies and priorities, and to its entity-wide risks. Outlines what audits will be done, and when. Provides flexibility to enable management initiated requests to be accommodated. Enables the audit committee to track the overall progress of audits, and the reasonableness of coverage.</td>
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<td>Annual quality assurance assertion</td>
<td>Provides explicit assurance that the internal audit activity is conforming with professional auditing standards. Signed by the chief audit executive and each senior audit leader. Some of the auditing standards warrant a specific assertion, such as how the following elements have been managed – independence, restrictions on work, conflicts of interest, errors and omissions, and quality assurance and improvement more broadly.</td>
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<td>Audit themes</td>
<td>Facilitates the consolidation of individual audit results into higher level reporting using a structured approach. The audit committee will then be better placed to address emerging strategic and systemic issues, and to alert the chief executive in a timely manner to emerging issues.</td>
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<td>Professional development plan</td>
<td>Reflects that the capability of the internal auditors is most vital to the overall success of the internal audit activity. Rarely do internal auditors have all the skills that they need to do their jobs now and into the future. They also need to be nurtured and given job enrichment to maintain a sharp professional culture. The professional development plan reflects a five-step planning process – what skills you have, what skills you need (now and in the future), the individual and overall skill gaps, the development options, and the periodic evaluation of results.</td>
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<td>Strategic audit plan</td>
<td>Identifies the strategic initiatives that will be implemented over the next three years to enable internal audit to achieve its vision. Minimises the risk of the internal audit function becoming stale. Allows the audit committee to monitor how well the internal audit activity is evolving and positioning itself to meet the committee's increasing needs and expectations.</td>
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<td><strong>MATURE PRACTICE</strong></td>
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<td>Annual report on internal audit</td>
<td>Showcases the contribution of internal audit over the previous year, and features the capability of the auditors. Provides trends, analysis and commentary on audit themes. Helps to enhance internal audit’s credibility by drawing the “whole story” together.</td>
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<td>Balanced scorecard reporting</td>
<td>Provides quarterly performance reporting on the internal audit activity, spanning its contribution to the audit committee, the value to management, how internal processes are managed, and how audit staffing is shaping up. Enables the audit committee to monitor internal audit’s overall performance.</td>
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<td>Capability framework</td>
<td>Outlines the technical auditing capabilities described for each level within the structure. Provides a solid basis for job design, recruitment, career path planning, and professional development. Tailors the IIA Capability Framework for the entity, and can be consolidated with the entity’s generic capability matrix where this exists. Complements the professional development plan. Provides the audit committee with insights on succession planning and talent development.</td>
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<td>Knowledge champion program</td>
<td>Ensures that internal audit is proactive rather than reactive, as it will be well-positioned to provide periodic reporting and benchmarking to the audit committee on emerging topics. Assigns topics to all auditors for which they will become empowered and they will establish a reasonable level of expertise. They will impart that knowledge to others. They will be supported by a mentor (usually a senior audit leader). The topics cover business areas; technical audit areas like governance, risk and control; soft control areas like values and culture; and specialisations appropriate for the entity like safety and accounting standards. The topics can be varied to suit the nature and requirements of the entity.</td>
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<td>Stakeholder relationship program</td>
<td>Identifies the key stakeholders within the entity and externally. Provides the basis for prioritising the nature and regularity of contact. Allows the auditors to keep abreast of changes and challenges within the entity. They will be better-positioned to take on new audits in a timely manner, and to provide appropriate briefings to the audit committee.</td>
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governance, risk and control insights truly help management to achieve business objectives; and you consistently deliver value to the business. Your risk-based auditing methodology will be efficient, effective and contemporary, and will ensure the timely delivery of outcomes at a reasonable cost.

Professional outreach strategies will help you to connect with audit leaders and practitioners from outside your entity. That way you will avoid becoming too inward-looking. The insights you gain will help you to remain innovative, and to keep abreast of emerging risks, hot topics, and better practices. The sharing of your entity’s “leading edge” practices with others will be energising, and will help to lift your credibility within both the profession and the eyes of your internal stakeholders.

**10 tools that make a real difference**

The 10 tools outlined opposite will help you to sharpen your focus, enhance your contribution, and satisfy the needs of your auditors, the audit committee, and senior management. The summary is structured in a way that illustrates the incremental transitioning from foundation elements, through positioning for success, to a mature internal auditing practice.

These tools align to the ABC elements as illustrated below.

**Top 10 ABC practice tips**

**ATTUNED**

1. Understand the environment in which the entity is operating, including external factors and competition.
2. Know the entity’s strategic direction – what’s happening now, what’s likely to happen, and what are the emerging risks.
3. Establish a constructive partnering arrangement with the audit committee, and build a high level of mutual trust.
4. Keep abreast of audit committee expectations through regular discussions (mainly between the chief audit executive and committee chair). Whilst formal reporting and presentations at audit committee meetings are vital, the informal discussions with members are often even more valuable.
5. Establish a comprehensive and structured stakeholder relationship program to know what is coming “across the horizon”.
6. Develop a risk-based and strategically focussed forward work program that ensures that the internal auditors get into the right areas at the right time.
7. Establish high-level themes within the forward work program to facilitate future reporting on trends and systemic issues, rather than just focusing on the results of individual audits.
8. Assist the entity to value independent scrutiny. Embed auditors early in major system developments, business re-engineering, construction and similar projects.
9. Strive to always deliver auditor excellence in what, when and how internal auditors do their work.
10. Get into the business to see what really goes on. Use knowledge champion concepts.

**BALANCED**

1. Achieve a balanced coverage in the forward work program, blending traditional areas of financial audit coverage with efficiency, effectiveness and ethics elements; incorporate deep dives and spot checks.
2. Position internal audit so that it is looked upon as a source of advice and provider of quality consultancy services.
3. Expand involvement in activities that may be beyond traditional coverage, working with business leaders on areas like business continuity, risk management, and compliance until they reach a reasonable level of maturity.
4. Access industry and economic information independently to reduce reliance on management’s perspective of organisational and sector risks.
5. Tap into the organisational health, and share impressions and insights on emerging issues with audit committee members.
6. Showcase the contribution of internal audit activities to the business in a comprehensive annual report to the audit committee and key executives.
7. Deliver crisp reports that really matter, and pitch them in a manner that aligns to the critical business drivers. Reports must be short, sharp and succinct.
8. Enhance high-level reporting to the audit committee by summarising and reporting the outcomes of all audits under agreed themes.

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<td><strong>Auditor</strong></td>
<td><strong>Knowledge champion program</strong></td>
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<td><strong>Strategic audit plan</strong></td>
<td><strong>Capability framework</strong></td>
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9. Write “without fear or favour - telling it as it is”, but write in a balanced style “for the world to see”, recognising the concepts of freedom of information.

10. Undertake effective monitoring and reporting of the status of audit recommendations.

Conclusion

Don’t be the mosquito in the room. Irrespective of your role or the size of your internal audit function, you are big enough to have a significant impact on your entity. It’s as simple as ABC – you just need to be attuned to the business, adopt a balanced approach, and establish your credibility in the eyes of your key stakeholders.

These approaches do work. Once we understood how the auditors had become disconnected in the scenario we outlined in the introduction, we established ABC strategies that helped us to change the stakeholder perceptions. Our stakeholders now recognise the value of internal audit’s contribution, and this was validated through their positive feedback during an external quality assessment review.

The concepts, tools and practice tips contained in this article will help you to create a professional audit practice; and that way, you’ll be well positioned to deliver what the audit committee really needs.

Acknowledgement

The author’s experiences with professional auditors and audit committee members who have partnered with him in transforming the internal auditing functions at several entities have been combined into the one “fictional entity” and the tools and tips in this article.

Special thanks to the audit committee chairs and members who contributed their ideas and insights for this article in late-2011. Particularly the following people for their written contributions – Arthur Butler, Jennifer Clark, David Holmes, Peter Kennedy, Jason Masters, Kerry O’Loghlin, and Leonard Yong.

References

5. The International Professional Practices Framework (IPPF) is an authoritative guide published by the Institute of Internal Auditors, and available through the Institute of Internal Auditors – Australia (www.iiia.org.au).
8. The Code of Ethics is part of the IPPF published by the Institute of Internal Auditors, and available through the Institute of Internal Auditors – Australia (www.iiia.org.au).
11. The Forward Work Program for the Australian Taxation Office for 2011-2012 contains almost 100 audits. The program splits the audits into eight “themes”. These themes are: core tax administration activities; corporate culture; financial stewardship; governance, risk and assurance; information technology governance and controls; security and privacy; third party relationships; and strategic management.