



MEASURING SUCCESS OF THE INTERNAL AUDIT FUNCTION



INTRODUCTION TO IIA STANDARDS

The purpose of the IIA *Standards* is to:

1. Guide adherence with the mandatory elements of the International Professional Practices Framework.
2. Provide a framework for performing and promoting a broad range of **value-added** internal auditing services.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

INTRODUCTION TO IIA STANDARDS

IIA defined Value Add as follows:

“The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.”

RELEVANT IIA STANDARDS

2000 – Managing the Internal Audit Activity

The internal audit activity adds value to the organisation and its stakeholders when it considers **strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.**

RELEVANT IIA STANDARDS

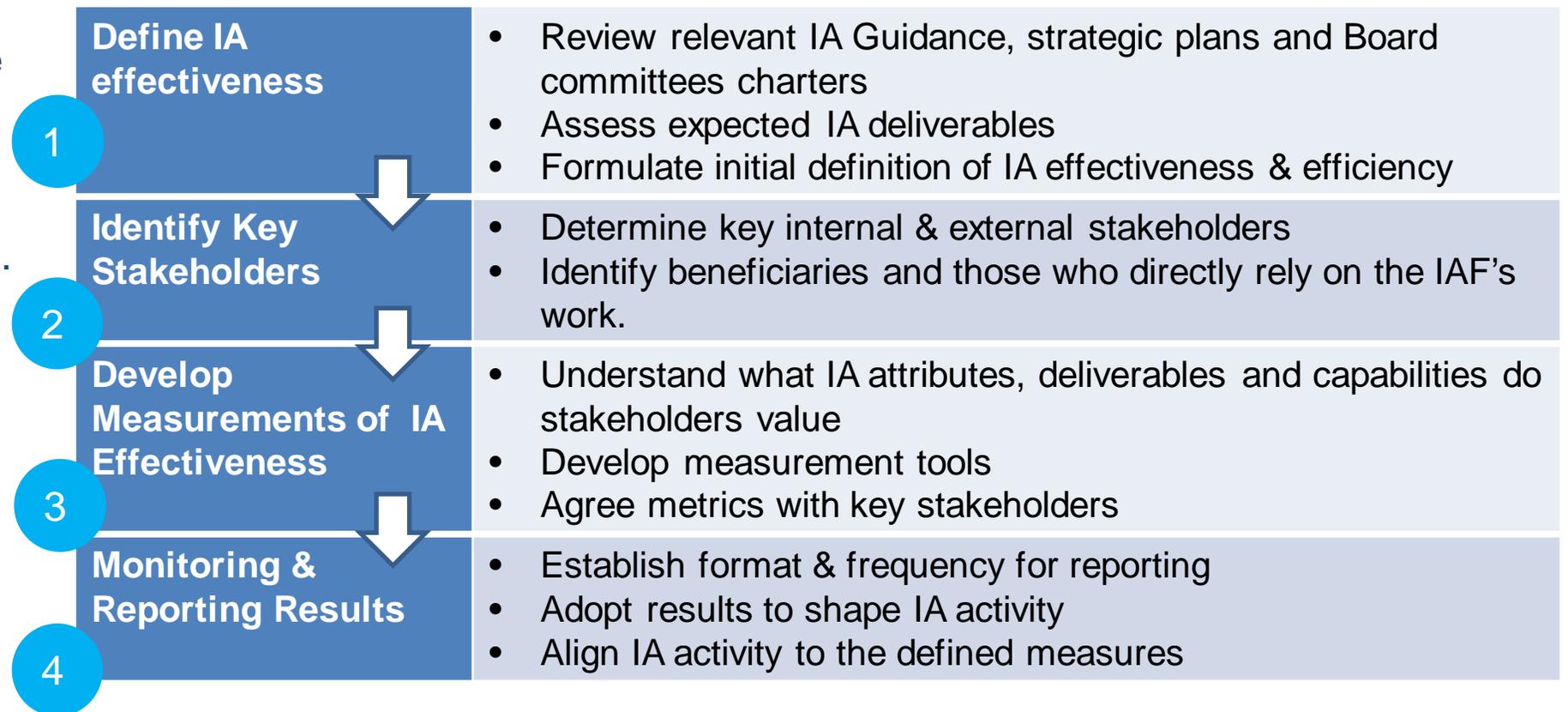
2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. **Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.**

PRACTICE GUIDE – MEASURING IA EFFECTIVENESS & EFFICIENCY (I)

Establishing the Performance Measurement Process – Recommended Steps

Internal auditing must effectively demonstrate its value as a **key component** of the organization's governance framework. The audit activity can lead by example with strong, relevant, and reliable performance measures.



PRACTICE GUIDE – MEASURING IA EFFECTIVENESS & EFFICIENCY (II)

Performance Metrics can be established along dimensions, interests, and perspectives of key stakeholders. Each perspective would include related measures.

Example of a balance scorecard approach to performance metrics



IA QUALITATIVE SUCCESS MEASURES (I)

Internal audit departments that have clear objectives and are **clearly aligned with their stakeholders' goals** tend to be much better respected... They are seen as providing more value for the money.

Most stakeholders judge the Internal Audit Function by **outcomes** of our work, not by the outputs. IAs success is determined by the extent to which it **inspires positive change**, not by the number of reports/pages that it writes.

IA often adds more value by **educating its clients** and **strengthening control awareness** than by identifying a control breakdown.

Extracts from the article *Measuring Success – Outcomes or Outputs?* by Richard F Chambers – President and CEO of IIA Global

IA QUALITATIVE SUCCESS MEASURES (II)

Questions which may help determine whether IA is adding value:

- How many new advisory engagements are being requested by management?
- What percentage of our recommendations are implemented by management?
- What's the trend in internal audit client satisfaction ratings?

Possible **indicators** of enhanced added value by IA:

- Reporting to a higher level.
- Allocation of adequate budgets.

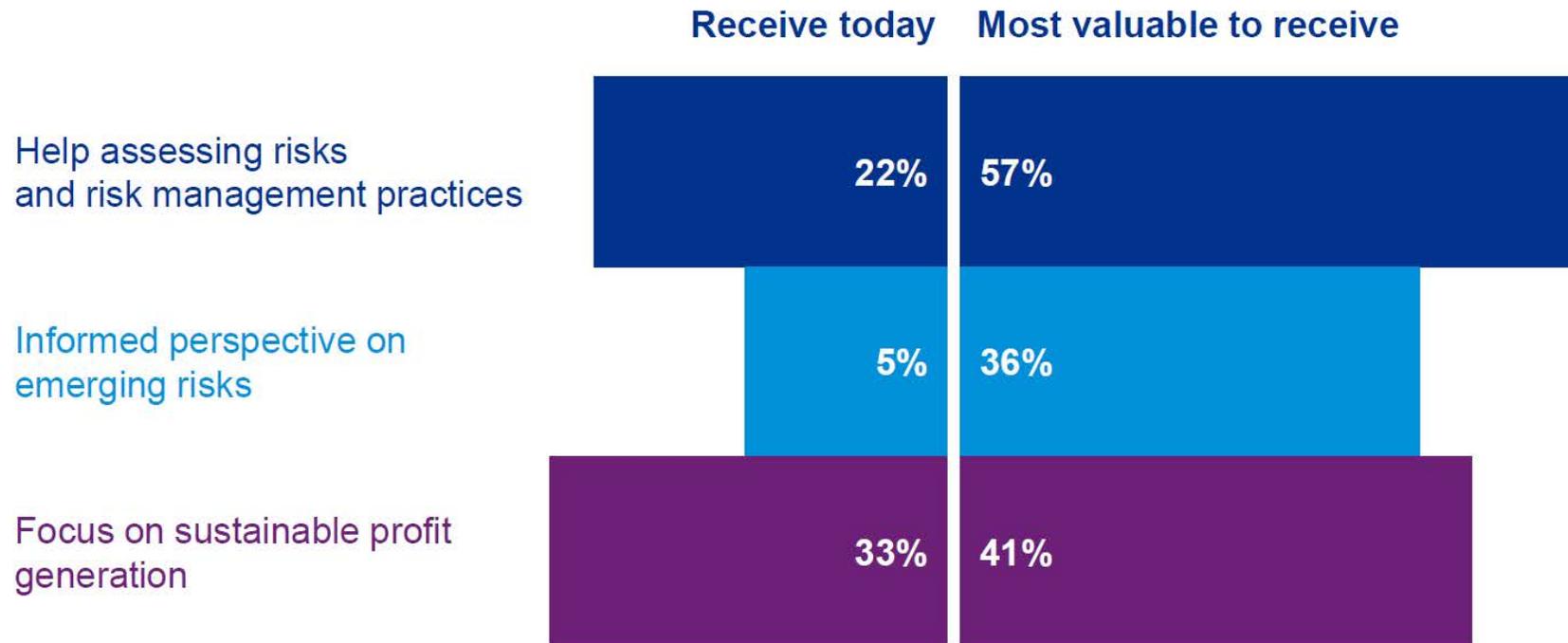
ESTABLISHING THE PERFORMANCE MEASUREMENT PROCESS

Internal auditing must effectively demonstrate its value as a key component of the organization's governance framework. The audit activity can lead by example with strong, relevant, and reliable performance measures.

“Audit quality is like an iceberg – stakeholders can only see the tip and they assess the quality on that basis – effort is therefore directed at the part which can be seen.”

Comment by PCAOB during the meeting with Guy Bainbridge and David Britt (June 2014)

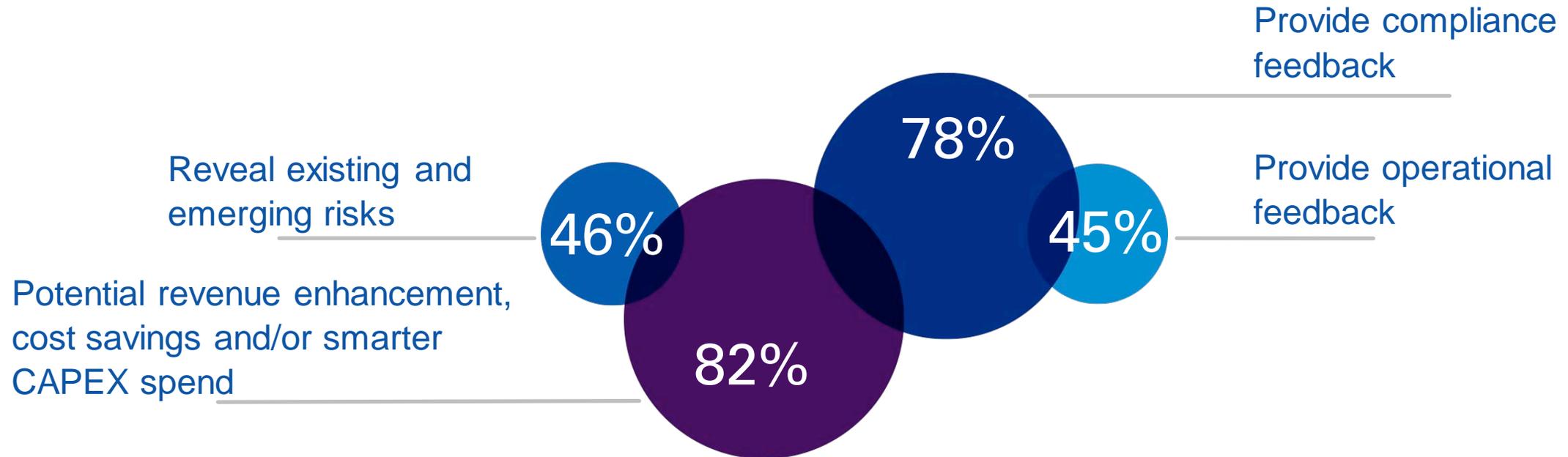
KPMG STUDY: WHAT CONSTITUTES VALUE?



What insights do companies receive from their IA today? What insights would be of most value?

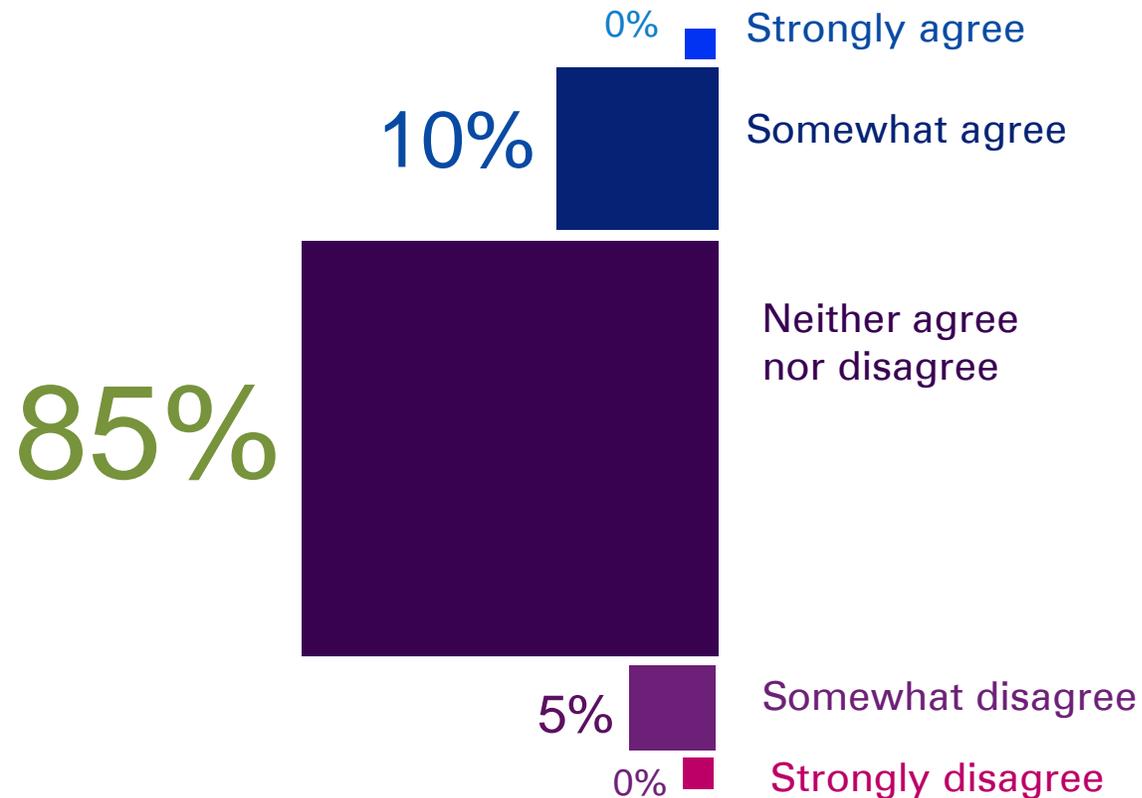
KPMG STUDY: INSIGHTFUL INTERNAL AUDITS

What makes for a valuable and insightful audit?



Source: Seeking value through Internal Audit, KPMG International, 2016

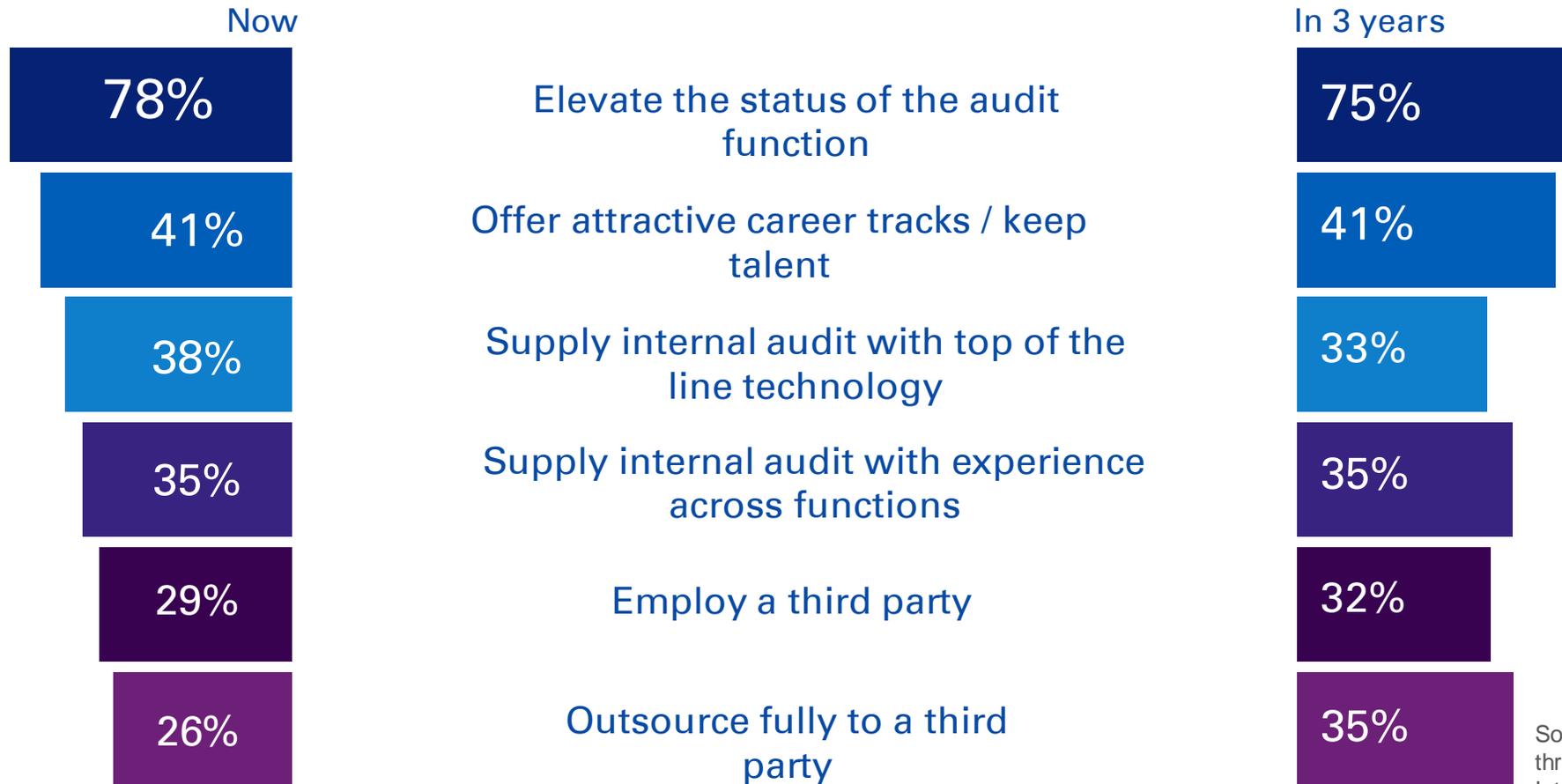
KPMG STUDY: MAKING VALUE REAL



How strongly do companies agree or disagree that their IA function adequately identifies and responds to their emerging risks?

Source: Seeking value through Internal Audit, KPMG International, 2016

KPMG STUDY: ENSURING AUDIT QUALITY



Source: Seeking value through Internal Audit, KPMG International, 2016

KPMG:TOP 10 CONSIDERATIONS

In 2017, KPMG had enumerated **10 key areas to focus on** in order to effectively add value across the organization and maximize its influence on the company:



Integrated assurance



Cybersecurity



Emerging Technologies



Strategic alignment



Regulatory compliance



Third-party relationships



Data analytics and continuous auditing



Anti-bribery/anti-corruption

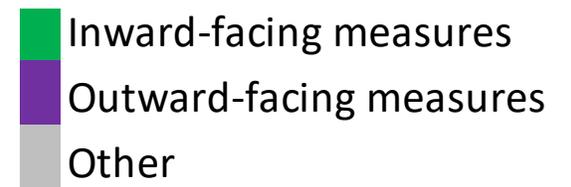
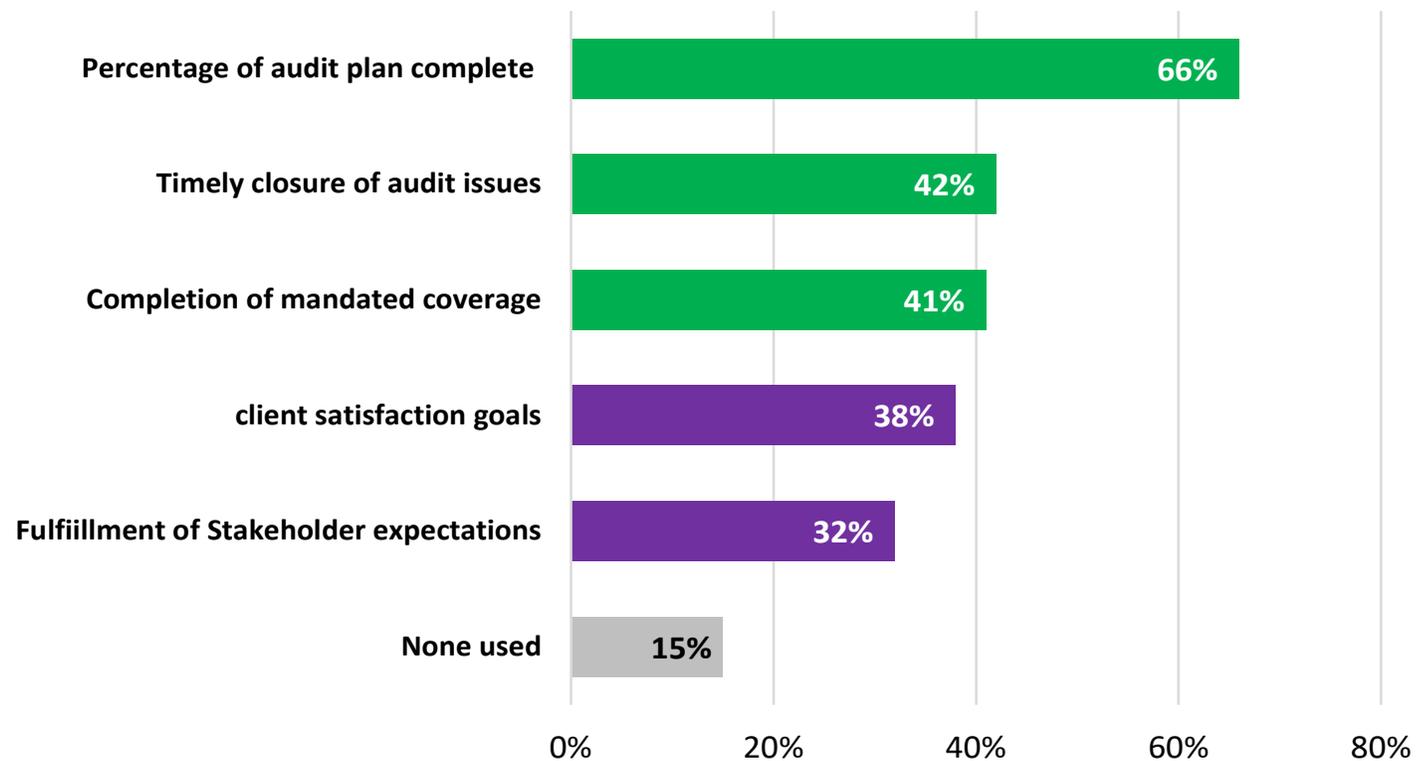


Performance risk

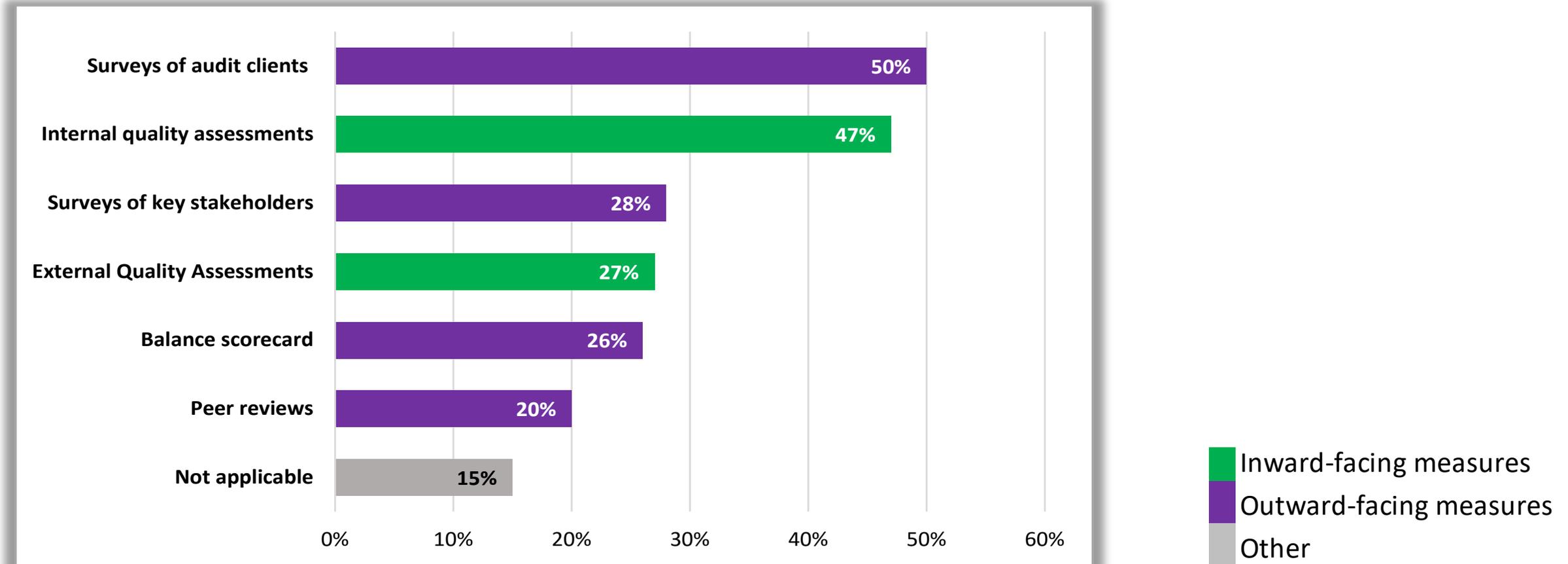


Culture

IIA STUDY 2015: MEASURES OF IA PERFORMANCE

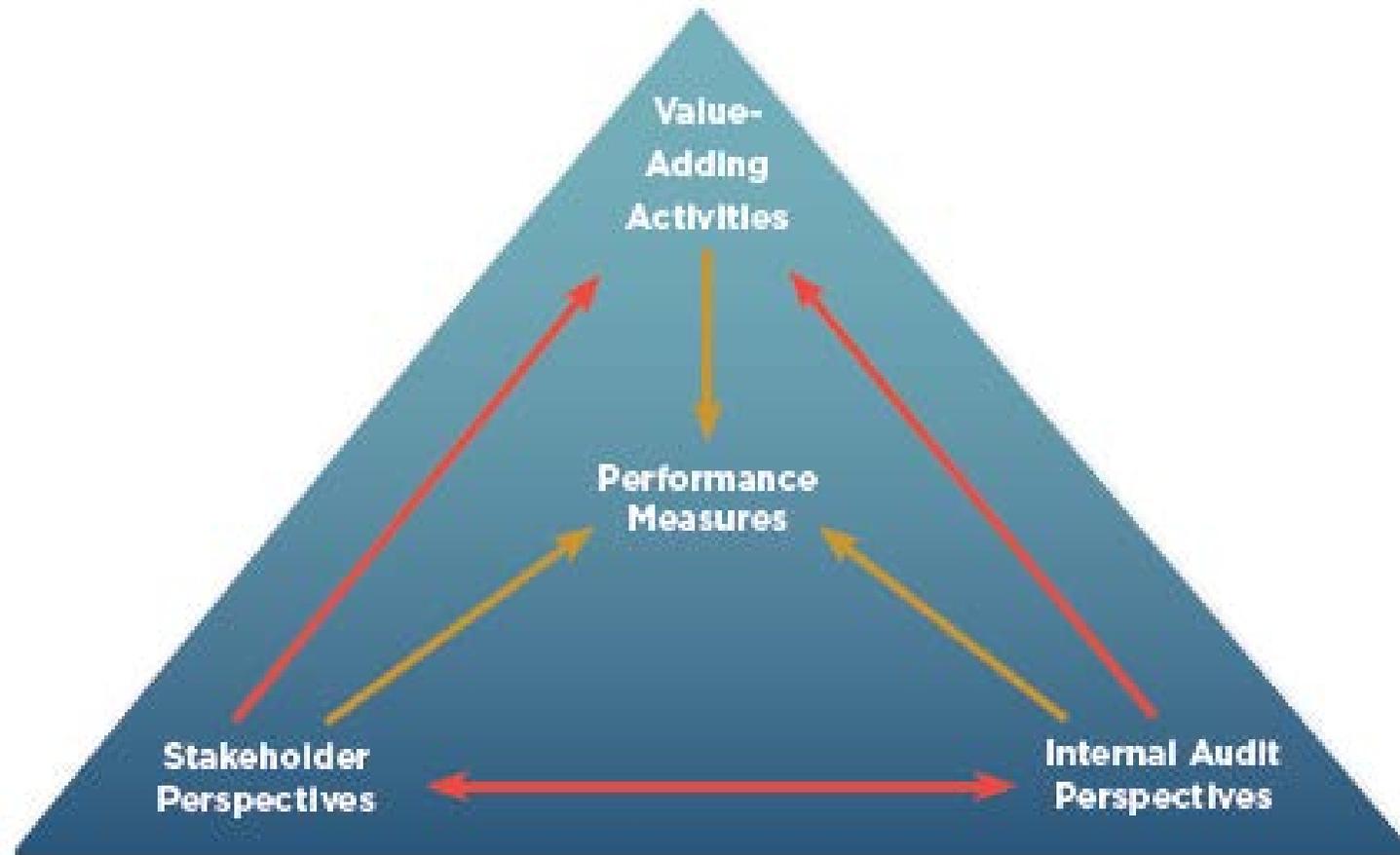


IIA STUDY 2015: METHODS USED TO MEASURE IA PERFORMANCE



Source: Delivering on the Promise, IIA, 2015

IIA STUDY 2015: THE PERFORMANCE MEASUREMENT TRIANGLE





QUESTIONS?

