

*Maximising  
the value of  
Internal Audit:  
who dares wins*





# Who dares wins

***One of the biggest challenges internal auditors face is demonstrating the value they add to an organisation. How to put a value on the strength IA adds to the control environment, to the mishaps that didn't happen because of IA intervention? The situation is further complicated by the range of stakeholders that IA needs to deal with, and those stakeholders' potentially different expectations.***

We have put forward the challenge *who dares wins* because internal auditors may need to take steps to maximise their value and how that value is perceived. The 'gap' between the value and the perception of that value could be caused by a number of factors, such as:

- Stakeholder expectations – are they understood? Are there differences, for example between the views of the board audit committee and those of senior management? How are any differences resolved?
- Internal audit knowledge – IA's view of an organisation enables it to join the dots in a unique way and provide insights to management and the board audit committee which those groups might not otherwise be able to see.
- New or changed work practices – is there something extra IA can do that will make a big difference to the organisation? (Refer to Figure 1.1 for some ideas to consider – we do not suggest that you do everything in the box, but some of these might work for you.)

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# Capturing and communicating IA value

There are a number of steps that IA can take to capture and communicate the value it adds to an organisation. The diagram below provides a process that can be used to build further value into your internal audit, from the initial stakeholder engagement, through the delivery of the audit, and afterwards.

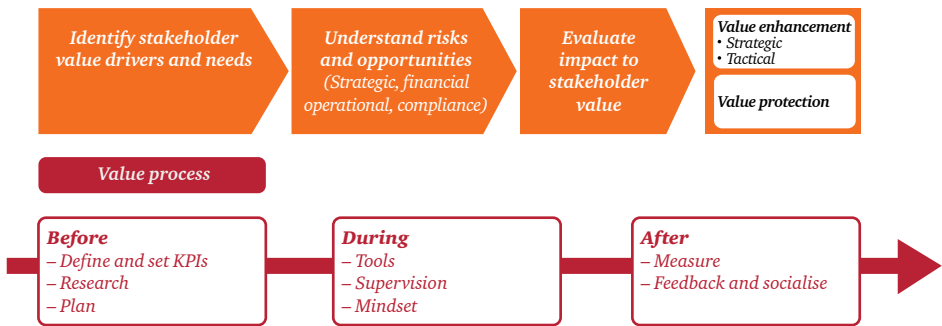


Figure 1.1 A framework for considering IA value

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**Value enhancement can be easier to demonstrate than value protection – which is core to the IA role.**  
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# Understanding your stakeholders and their priorities

*Fundamental to adding value is understanding how stakeholders see 'value'. Many IA functions ask their stakeholders to prioritise what they value most about IA, then use that information to shape their audit strategy and approach. Where there are large differences in views between stakeholders, this is drawn out in discussions so that the difference is acknowledged and the audit strategy understood.*

A typical example of differences in stakeholder views is where the audit committee is looking for high levels of assurance but management wants more 'consulting-style' business support. While it's possible for these differing views to be accommodated by the IA function, more often the skills needed to provide consulting-style services differ from the core internal audit skills, so management's needs are not able to be met. Dealing with management's expectations and working through the audit strategy with them will be a much better approach than simply not addressing the expectation gap.

## Possible stakeholder priorities

Some examples of internal audit strategies you can ask stakeholders to prioritise:

- **Objectivity** – IA should be objective in performing its work
- **Assurance** – providing comfort over whether the control environment is designed and operating effectively
- **Third line of defence** – providing comfort that management's risk management and compliance functions are effectively monitoring the business
- **Consulting** – advising the business on how to improve processes and practices
- **Risk management** – offering insight into risk areas and the management of risk
- **Governance** – providing feedback on the effectiveness of governance processes
- **Operational effectiveness and efficiency**
- **Compliance with laws and regulations**
- **Reliability of financial reporting.**

## KPIs to consider

For many organisations, working through stakeholder priorities can help clarify the role of, and value placed on, internal audit, and can also clarify the roles of the risk and compliance functions and of external audit.

Understanding stakeholder expectations also allows IA to develop KPIs that report on the value being delivered. Some KPIs that can be considered, depending on the focus agreed with stakeholders, are:

- business coverage (how much has been audited/not audited over an agreed period)
- stakeholder feedback on the quality of internal audit (the team and the work)
- rate of clearance of issues raised
- value of performance improvement opportunities identified by IA and adopted by management.

## Leadership skills

Underpinning all the value discovery discussions are great stakeholder management, excellent communication skills and the development of trust between IA and the stakeholder group. It also creates an open, constructive environment in which IA seeks feedback and continues to look for opportunities to improve and add greater value.

The attributes of excellence below are taken from PwC's 2011 State of the IA Profession Study. They are relevant to the strategies and behaviours needed to unlock and demonstrate IA value.

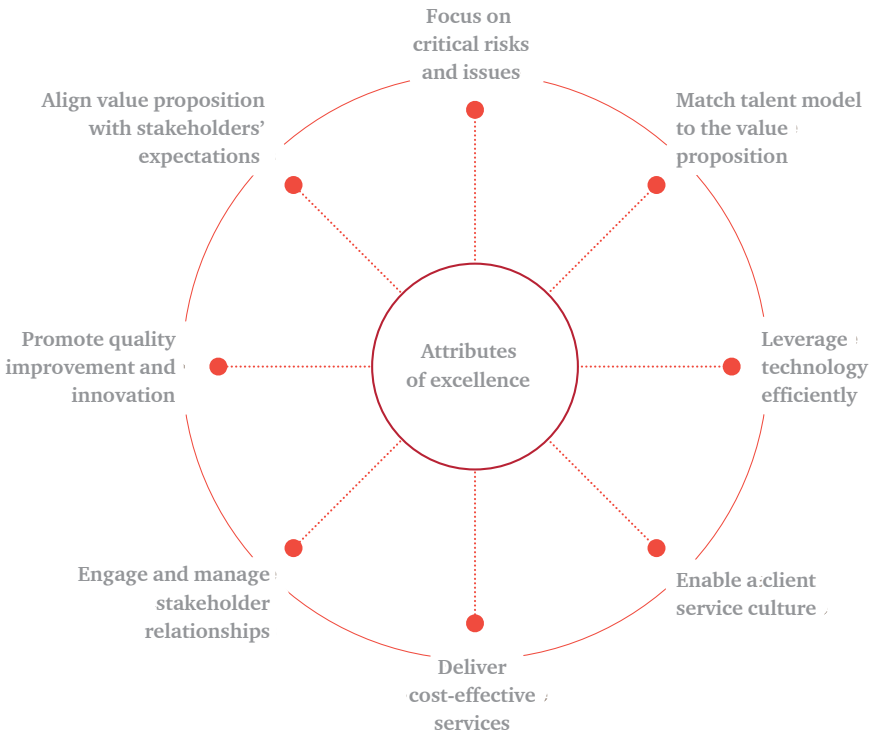


Figure 1.2 IA's attributes of excellence

## Could you add more value by incorporating one or more of these ideas into your internal audit strategy or approach?

1. Fireside chats on the intangibles: quality of people, morale, engagement, values, teamwork, communications, culture
2. What would you like us to look at? Ask management to define two ideas that may reduce cost, improve control etc, and include them in the audit plan for IA and management to work on
3. Recognition in reports for improvements that have been implemented by management over time
4. Amnesty: management puts all issues on the table at the start of the audit and gets credit for knowing the issues and having plans in place to address them
5. Integration of issues from all sources (eg external audit, internal audit, health and safety, compliance, regulator reviews) to create one consolidated view of business issues for management and the audit committee
6. Thematic audits: over time or across businesses, include focus areas that enable IA to draw out themes and comparisons
7. Pre-audit research or data interrogation to better direct audit effort. This can come from comparison with benchmarks, similar functions elsewhere in the business, data mining for unusual items, and predictive software – for example looking for potentially fraudulent transactions
8. Tools to assist value discovery, for example revenue leakage or duplicate payments
9. Use of ‘guest auditors’ or other subject matter experts who bring deep business knowledge and perspective to the audit
10. Defining value drivers and auditing against these
11. Assisting with investigating significant frauds, including input to potential insurance claims
12. Assisting with product recalls and incident responses
13. Including an ‘insights’ section in each audit and summarising these, say every six months, to provide a business insights report for management and the audit committee
14. Integrated risk and assurance mapping to provide a holistic view of risks and the related assurance
15. Culture surveys and ‘behavioural auditing’
16. Supporting the business with preparation, discussions and negotiations with regulators
17. Training sessions in risk management and controls effectiveness for management and the audit committee
18. Market research to provide a comparison with competitors, addressing the question “How do we compare to the market?”
19. Future focus: things might work now, but if the business strategy contemplates major change, IA can comment on the organisational capacity to implement the new strategy
20. Providing input to the audit committee agenda, based on IA’s business knowledge
21. Providing feedback on the quality of the risk management framework and processes and challenging their effectiveness. Also being open to challenges to IA’s own effectiveness – a healthy tension that leads to improvement in both functions
22. Communication and education role – using IA’s knowledge to clearly present complex processes and issues in a way that helps the audit committee’s understanding.



## **Case study**

### **Common issues over multiple locations and BUs**

*The IA team of a large organisation with multiple locations and business divisions identified a number of common issues arising from internal audit reviews. The challenge was to fully understand any themes, communicate them effectively, and then support the organisation to ensure management's attention was prioritised to the areas of greatest need.*

The IA team came together to determine the following:

- **Establish delivery trends** – It was important to ensure that the issues identified were not isolated to certain activities or locations. IA's coverage across the business was analysed, and the number and rating of findings reviewed. It was found that business areas with a higher number of more significant findings were also responsible for the management of higher risk activities – which validated the IA resource allocation and audit plan focus. It was also noted that the audit plan contained a good balance between compliance/assurance reviews and risk based/performance improvement reviews across the business.
- **Identify common themes** – Four key themes were identified that affected multiple parts of the business and had arisen a number of times over the preceding 2-3 years. The themes covered technology use and investment, governance structures, organisational culture, and the business's ability to use risk management to drive value within the organisation.
- **Examine timing of audit outcomes** – A stated objective of the audit committee was to ensure that management actions to address IA findings were completed within agreed timeframes. There had been slow progress in some areas, with frequent revisions to implementation dates, and the audit committee was dissatisfied with progress. The extent to which implementation dates were being revised for the common themes was compared to revisions for other findings, and it was confirmed that dates were more frequently revised for the common themes.

### How did IA communicate value?

IA prepared a discussion paper for the CEO and audit committee to convey the messages and learnings identified. The paper contained a number of key points illustrated by clear graphs and supported by high-level discussion of themes.

### How did the organisation benefit?

IA had been able to look at the organisation through a lens that no one else had access to. The CEO and the audit committee then worked together to reinvigorate and change a number of programs, including risk management, technology and organisational culture. This led to effort now being consistently focused across the organisation on things that matter. IA has also developed an approach for a similar exercise in the future.



## **Case study**

### **University billing and receipting process**

*A major Australian university had recently implemented a new computer system for its student billing and receipting process, and was still coming to terms with how to use it. Student billing and receipting is a complex process that includes any activity with a financial impact on students' accounts. It is the university's main income stream process, and therefore significant to operations.*

The IA team identified several very important control weaknesses. In addition, IA uncovered the root causes of these issues – including a lack of understanding within the billing and receipting team of appropriate and effective risk management and internal control – and identified the interdependencies in the process where control gaps were occurring at the handover points.

In the face of some initial resistance, IA stood by its conclusions, and as a result the university reconsidered the adequacy of its risk mitigation activities as well as assessing where efforts should be focused from a risk and control perspective.

IA also identified some efficiency gains in the process, and provided recommendations to management on how to take advantage of these.

### **How did IA add value?**

- Understood a complex process with a number of interdependencies and explained it in a clear and straightforward way to senior stakeholders.
- Collaborated with an expert in payment card industry (PCI) standards to provide greater clarity to the university as to why and how PCI is relevant to them.
- Worked with management in assessing the appropriate actions to address the gaps and deficiencies, which gave senior management a better understanding of their processes and key risks.
- Had the confidence and commitment to raise long-standing issues.
- Helped rectify a number of important risk management and control weaknesses.

### **How did the organisation benefit?**

Both management and the university achieved a greater understanding of and commitment to the importance and relevance of risk management and control.



## *Case study*

*Adding value in a mature and stable control environment*

*The IA team of an entity involved in precious metals faced the challenge of demonstrating value to the organisation which had a mature and stable control environment.*

## Measuring IA's value

IA's primary objective is to provide assurance to the audit committee over the organisation's control environment, specifically the design and operating effectiveness of controls. Historically, the team's value had been directly linked to:

- completion of the audit plan in accordance with timelines agreed with the audit committee
- feedback in relation to individual internal audits. A key indicator of value on an individual audit level was the seamlessness by which issues were raised with management and the extent of management's buy-in to any findings.

However, given the maturity of the control environment, the majority of audit reports were 'clean'. While clean reports were a positive indicator of the control environment, they also had the unfortunate potential to diminish the perception of IA's value.

### A new way of measuring value

IA therefore decided to identify opportunities for providing business insights to the audit committee and management. They did this by undertaking indepth reviews following additional data analytics performed during individual audits. Examples of such reviews and insights are:

- a contracts management audit, following which the team provided insights into the organisation's top suppliers and ratios of domestic to international suppliers
- a business function audit which delivered insights into the volumes, costs and profitability of trading, resulting in further scrutiny by the organisation on the strategy and business objectives for this function
- system reviews identifying specific exception-reporting objectives for management reporting purposes.

The business insights provided by IA now receive significant attention from the audit committee and management.

### How these measures are assessed

IA's performance is formally assessed by the audit committee on a quarterly basis, during which IA status reports (plan to actual) are discussed. The audit committee also seeks feedback from business unit management on the team's performance, with the feedback relayed to the team. Finally, IA meets annually with the chairman of the audit committee to obtain the committee's overall feedback on the team's performance.



# Case study

*Partnering with an external expert = benefits all round*

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*A large government department needed to build internal capability in IT project assurance by partnering IA with an expert provider. IA was also looking to streamline the project assurance process and improve its internal capability within the constraints of a limited budget.*

## **What was IA's role?**

IA ran the improvement process, which involved co-creating (with the external expert) a range of work programs, checklists, training and awareness documents, as well as establishing appropriate mechanisms for coaching and sharing of knowledge between the external team and the department's staff.

As a result IA gained efficiencies (less time is required to run similar reviews) and, because of the reduced timeframe, increased flexibility. Tests can be carried out periodically if there is a concern. Also, less technology-savvy people can run the tests, freeing up the more specialist skills for other work or to focus on any changes to the tests if needed.

## **How did IA add value for the department?**

The department has achieved greater transparency in terms of project outcomes and timeframes. Tests do not need to be re-performed each year during the external audit. In addition, with greater consistency of results and more internal capability, the level of risk has also been reduced.

The joint delivery team also gained the added advantage of sharing its knowledge – departmental staff's organisational knowledge shared with the external team, and the external team's industry and technical knowledge shared with the internal staff.



# Contacts

## Internal Audit

### **Robin Low**

**Partner, Internal Audit Leader**

Tel: (02) 8266 2977

E: [robin.low@au.pwc.com](mailto:robin.low@au.pwc.com)

### **Patrick Farrell**

**Partner, Melbourne**

Tel: (03) 8603 3250

E: [patrick.farrell@au.pwc.com](mailto:patrick.farrell@au.pwc.com)

### **Gavin Moss**

**Partner, Sydney**

Tel: (02) 8266 4891

E: [gavin.moss@au.pwc.com](mailto:gavin.moss@au.pwc.com)

### **Josh Chalmers**

**Partner, Brisbane**

Tel: (07) 3257 8391

E: [joshua.chalmers@au.pwc.com](mailto:joshua.chalmers@au.pwc.com)

### **Kim Cheater**

**Partner, Adelaide**

Tel: (08) 8218 7407

E: [kim.cheater@au.pwc.com](mailto:kim.cheater@au.pwc.com)

### **Shane Devitt**

**Partner, Perth**

Tel: (08) 9238 3473

E: [shane.devitt@au.pwc.com](mailto:shane.devitt@au.pwc.com)

### **Steve Baker**

**Partner, Canberra**

Tel: (02) 6271 9544

E: [steve.baker@au.pwc.com](mailto:steve.baker@au.pwc.com)

## Your PwC Ireland contacts...

### **Mike Sullivan**

**Partner**

Tel: +353 (0)1 792 6450

E: [michael.m.sullivan@ie.pwc.com](mailto:michael.m.sullivan@ie.pwc.com)

### **Bob Semple**

**Partner**

Tel: +353 (0)1 792 6434

E: [bob.semple@ie.pwc.com](mailto:bob.semple@ie.pwc.com)

### **Andy Banks**

**Director**

Tel: +353 (0)1 792 6804

E: [andy.j.banks@ie.pwc.com](mailto:andy.j.banks@ie.pwc.com)

### **Yvonne McBain**

**Senior Manager**

Tel: +353 (0)1 792 8722

E: [yvonne.mcbain@ie.pwc.com](mailto:yvonne.mcbain@ie.pwc.com)