Think beyond your annual audit plan
Creating a comprehensive internal audit strategy document

Of special interest to
Chief audit executives
Chief financial officers
Audit committee chairs
Dawn was breaking as Melanie S., the Chief Audit Executive (CAE) at XYZ Technology Group, pulled into her parking space. As she made her way to the elevators, she realized that today marked her two-year anniversary in the role, and she looked back at her first weeks on the job. XYZ’s acquisition of AttaBee Innovations — a company she had been with for more than 20 years — had doubled XYZ’s size and had made it one of the largest manufacturers of laser diodes in the world. XYZ’s Audit Committee Chair recognized value in the way AttaBee’s internal audit function helped the board monitor key business risk and offered recommendations to improve business process performance. The Audit Committee Chair asked Melanie to set XYZ’s audit function on a new course for the future.

Melanie’s first priority was to conduct an enterprise-wide risk assessment. Her next goal was to initiate a 12-month internal audit transformation. XYZ’s internal audit function had traditionally been focused on compliance. Melanie was determined to elevate her function’s role within XYZ to one of strategic advisor while maintaining its focus on the non-negotiable assurance work. As the elevator chimed to indicate it had reached her floor, Melanie smiled. The 12-month journey of transforming the internal audit function had gone well.

But as the CAE walked down the hall toward her office, her smile disappeared and her brow furrowed slightly. She had achieved her goal. Now what? She could shift her focus to give greater attention to the annual audit plan, but that felt short-sighted.

Melanie began to realize that to remain relevant to the organization — and to keep her seat at the C-suite table — she needed to think more broadly and strategically about the internal audit function. It was time to develop an internal audit strategy that is aligned to the objectives and time horizon of XYZ’s overall business strategy. Her smile returned, and she got to work.
What’s the issue?

In a CAE roundtable session we recently hosted, we asked participants the following question: “Does your internal audit function have a strategy?” Almost every CAE answered “yes.” We then asked whether their internal audit strategy was documented and spanned the same timeframe as the organization's business strategy and whether it aligned to the organization's business objectives and key initiatives. For many, the answer was “no.”

Many CAEs new to their role embark on a journey to transform their internal audit function. But when that transformation is complete, CAEs can often lose focus on long-term strategic planning for the internal audit function. Some have been mandated by their stakeholders to only focus on financial controls. Others have been distracted by SOX or, depending on the industry, a flood of new regulations.

To create value and maximize relevance to the organization, CAEs need to have a solid understanding of the organization’s strategic initiatives and develop an internal audit-specific strategic plan that aligns to the organization’s broader business priorities (strategic, operational, compliance and financial). Developing an audit plan based on what has always been done in the past means internal audit may not be auditing the most important and relevant risks. It also means the function can’t anticipate what may be around the corner and proactively ensure that it employs the right competencies and tools to address emerging issues and risks.

Does internal audit have an explicit and documented mandate aligned to the business?

According to a recent Ey survey, 61% of internal audit functions are not aligned with the business strategy.

- Yes, independent from the overarching business strategy: 5% (9%)
- Yes, aligned with the overarching business strategy: 39%
- No explicit internal audit mandate has been articulated: 52%
**Why now?**

The world is less predictable than ever. Organizations once thought to be infallible have disappeared overnight. Market volatility, once seen as a temporary condition stemming from the financial crisis, has become the new normal. And while the global economy continues to stumble toward recovery, its progress remains unsteady. In the face of such uncertainty, the internal audit function needs to be nimble and think proactively. Internal audit needs to be able to expect the unexpected and manage the strategic, operational, regulatory and financial risks that continue to shift on a near-daily basis.

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**How does it affect you?**

Without looking ahead, internal audit won’t get in front of the business risks that could negatively impact the organization or expose the board and audit committee to personal liability. The function might not have the appropriate resources, people, skills, technologies or processes in place in the right geographies to address or avoid potential issues. Additionally, internal audit will not contribute to the organization’s business objectives and, as a consequence, may lose its seat at the table and/or become a “check-the-box” function. In an increasingly competitive environment, organizations need to stay one step ahead of their competition. Without a long-term internal audit view that is aligned to the organization’s strategic priorities, internal audit will have less impact.
What's the fix?

There are four steps CAEs can take to build a long-term internal audit strategy that will keep the function relevant to the organization’s strategic planning:

1. Define or redefine internal audit’s strategic vision
   • What does internal audit want to accomplish in the next three to five years (or other time horizon that corresponds with the business)?
   • What are internal audit’s roles and responsibilities? What are the specific needs of its key stakeholders?
   • What is the function’s mandate?
   • Looking forward, what strategic business priorities can internal audit focus on to be more relevant?
   • Where are the enablement and competency gaps?

2. Identify and prioritize key internal initiatives
   • Is the internal audit strategy aligned to the business risks, organizational priorities, and key financial and operational initiatives?
   • Are processes, methodologies and tools up to date?
   • Is the function prioritizing effectively?
   • Does internal audit have the industry and functional insight it needs?
   • Are internal audit’s staffing models flexible enough?
   • Does internal audit have the right skills to anticipate change and attack emerging issues?

3. Design the appropriate internal audit KPIs
   • How is internal audit measuring its success?
   • How do key stakeholders define success for internal audit?
   • Does internal audit track productivity and value-driven measures?

4. Develop the internal audit operating strategy
   • What are the detailed activities the function needs to undertake to get from where it is now to where it needs to be?
   • What are the key milestones?
   • How is the function communicating its progress to all stakeholders involved?
   • What steps are in place to enable the function to adapt to changing priorities and remain relevant to the business?
   • How can internal audit get out in front of emerging issues and risks?
What’s the bottom line?

By developing a long-term internal audit strategy aligned to strategic business objectives and stakeholder needs, internal audit will be well-positioned to:

- Manage stakeholder perceptions
- Create a stronger internal audit brand within the organization
- Better coordinate across all risk functions
- Manage the function’s value to the organization, often through the creation of a value charter and scorecard
- Create a dynamic service delivery model that supports success
- Deliver high-impact stakeholder communications that demonstrate continued alignment to what the organization identifies as important
- Maximize its relevance and keep its seat at the table
Want to learn more?

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