


How internal audit creates an environment of ongoing excellence

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In the ever-evolving landscape of global finance, corporate governance and risk management, the role of internal audit (IA) has never been more critical to an organization.

As guardians of an organization's integrity, efficiency and compliance, internal auditors are tasked with navigating a complex web of regulatory requirements, technological advancements and emerging risks. It is within this dynamic environment that the importance of creating or revisiting the performance objectives of the internal audit function becomes paramount. Traditional metrics, while still relevant, may no longer fully capture the breadth and depth of value that internal auditors bring to an organization. The emergence of new risks, such as cybersecurity threats, and the increasing reliance on data analytics and artificial intelligence demand a re-evaluation of how the effectiveness of the internal audit function is measured. With the release of the Global Internal Audit (GIA) Standards in January 2024, there is a renewed focus on how internal audit functions measure and communicate their performance objectives via metrics. This point of view (POV) explores organizations' critical need to revisit internal audit metrics, emphasizing the importance of measuring and communicating performance objectives, driving continuous improvement, and leveraging emerging technologies to enhance the overall effectiveness of internal audit.

The importance of metrics in internal audit

The newly released GIA Standard 12.2 (Performance Measurement) states, "The chief audit executive must develop objectives to evaluate the internal audit function's performance." The Standard also includes a mandate to "consider the input and expectations of the board and senior management when developing the performance objectives." This requirement further emphasizes the role that well-defined objectives have in demonstrating the value and effectiveness of internal audit and the importance that collaboration has in that process.

Metrics serve as a compass, guiding internal audit functions towards fulfilling their mandate and aligning with the requirements to develop an IA strategy as outlined in Standard 9.2 (Internal Audit Strategy). Further, they can provide tangible evidence of internal audit's contribution to organizational success, going beyond traditionally used mechanisms such as audit plan completion and budget adherence. By aligning these metrics to performance objectives, internal audit functions can better articulate their value proposition and drive continuous improvement.

Effective metrics should capture both the quantitative and qualitative aspects of internal audit performance, including:

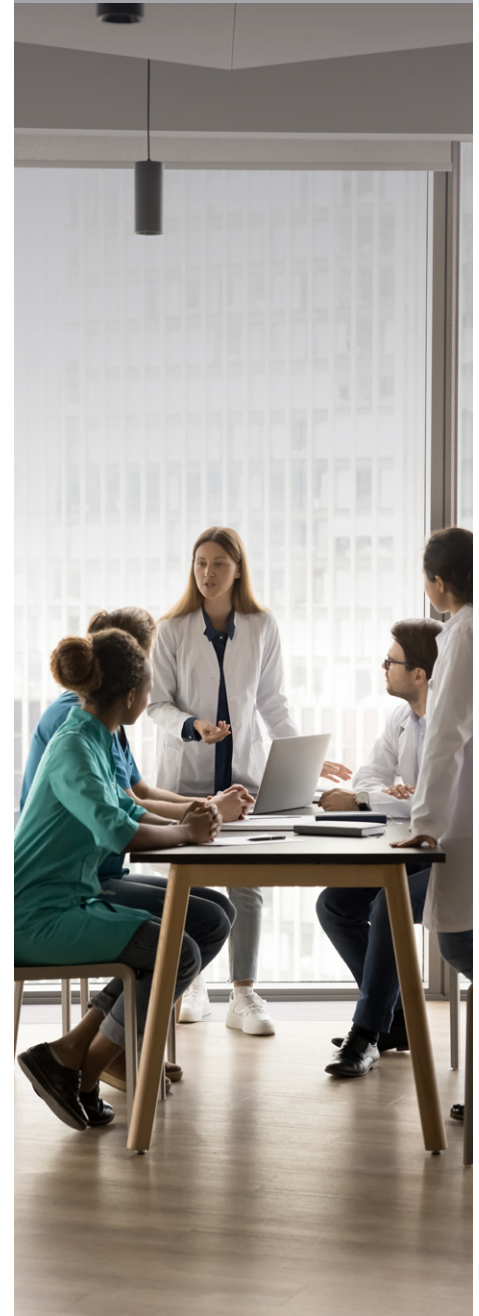
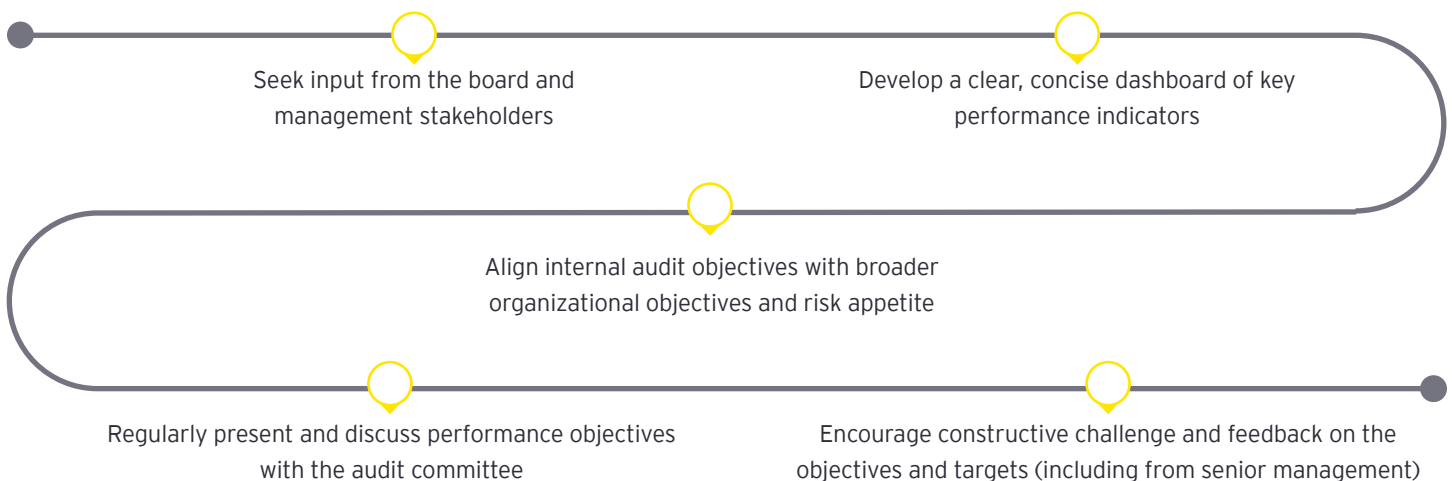
- 01 Impact on risk management and control processes
- 02 Stakeholder satisfaction and perceived value
- 03 Quality of audit recommendations and their implementation
- 04 Timeliness and relevance of audit insights
- 05 Auditor skill sets and proficiency

Reporting and challenge of performance objectives

Transparency in communicating performance is crucial in measuring internal audit's contribution to the organization. GIA Standard 8.3 (Quality) requires the board to "approve the internal audit function's performance objectives at least annually." This approval process provides an opportunity for robust dialogue between IA and the board at a regular cadence and confirms alignment between internal audit's objectives and organizational expectations.

The audit committee plays a pivotal role in challenging these objectives, confirming that they are sufficiently ambitious and aligned with the organization's strategic direction. This aligns with Principle 11 (Communicate Effectively), emphasizing the need for clear, two-way communication between internal audit and its key stakeholders.

To facilitate this process:



Driving continuous improvement through trends

Continuous improvement is at the heart of an effective internal audit function. By tracking performance trends over time, internal audit can identify areas for enhancement, shift mindsets and adapt to changing organizational needs.

This approach aligns with GIA Standard 9.2 (Internal Audit Strategy), which requires the development and implementation of a strategy that supports the organization's objectives. Trending performance data can inform this strategy, highlighting areas where internal audit can add the most value.

To leverage trending effectively:

- 01 Establish baseline performance measures and set improvement targets
- 02 Regularly analyze trends to identify patterns and areas for improvement
- 03 Use trend data to inform resource allocation and skill development
- 04 Share trend insights with stakeholders to demonstrate ongoing value and improvement

Leveraging AI in measuring internal audit performance

Artificial intelligence (AI) offers exciting possibilities for enhancing how internal audit performance is measured and analyzed. GIA Standard 10.3 (Technological Resources) encourages chief audit executives (CAEs) to “regularly evaluate the technology used by the internal audit function and pursue opportunities to improve effectiveness and efficiency.”

AI can assist in:

- 01 Automating data collection and analysis for performance metrics
- 02 Identifying patterns and insights that might be missed by traditional analysis
- 03 Predicting future performance based on historical trends and external factors
- 04 Enhancing the accuracy and timeliness of performance reporting

By embracing AI, internal audit functions can not only improve their performance measurement but also demonstrate their commitment to innovation and technological advancement.

Redefining how internal audit success is measured is not just about compliance with the updated Standards – it's about driving real change and enhancing organizational performance. By developing comprehensive, challenging, forward-looking performance objectives and metrics, internal audit functions can better articulate their value, drive continuous improvement and adapt to the evolving needs of their organizations.

As we navigate the complex risk landscape of the modern business world, effective performance measurement in IA will be key to confirming that the function remains relevant, impactful and aligned with organizational objectives. It's time for internal audit leaders to revisit their approach to performance measurement and embrace the opportunities presented by the new Global Internal Audit Standards.

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