Internal Audit Strategic Planning: Enhancing Value – Positioning for Success

2019 IIA Midwest District Conference
August 20, 2019
Let’s Get Started!

**Comic Strip:**

1. **Character A:** Is your project plan done?
2. **Character B:** I can’t do a plan until you tell me the strategy.
3. **Character A:** My strategy is to make you do a plan.
4. **Character B:** Sometimes the leadership just radiates from my body.
Introductory Discussion

Who has been:
- Involved in strategic planning?
- Part of an IA activity strategic plan?
- An auditor for more than 25 years?

Thoughts on:
- Forming strategies.
- Value of strategic planning.
- Internal audit profession.
The Current Environment

Today’s fast-paced risk landscape demands internal audit be agile and innovative.

Internal audit must:
- Adopt new strategies
- Reorder priorities
- Align with stakeholders

It’s time to speak up about KEY RISK AREAS!

alignment

a position of agreement or alliance

Internal audit is in a race to define its place in a rapidly changing world.

2019 Pulse of Internal Audit
The Current Environment

Elevating internal audit’s role: PWC
The digitally fit function
2019 State of the Internal Audit Profession Study

Internal Audit 3.0
The future of Internal Audit is now
Deloitte

As organizations hurtle into an increasingly technology-driven, innovation-oriented, risky, and disruptive future, where is Internal Audit? Very often, despite ongoing efforts to meet stakeholders’ growing list of needs, the answer is: playing catch-up.

For internal audit to effectively meet the raised expectations of stakeholders—including the audit committee, executive team, and business line managers—greater speed, agility, business alignment, and focus on the future will be paramount. Therefore, internal audit will need to become more data enabled, dynamic, and driven than ever before.

KPMG

To keep pace with digital and market disruption, Internal Audit (IA), as a profession, needs digitalization, a flexible people model, new skills and a more dynamic approach that is geared to giving timely insights on strategic risks.

EY
Why is this Important?

For internal audit to remain relevant:

• Adapt to changing expectations
• Maintain alignment with organization objectives
• Employ strategy to balance cost and value
• Make timely contributions to governance, risk management and internal controls
Learning Objectives

• Review steps to develop an internal audit strategic plan utilizing The IIA Practice Guide
• Develop or update Vision and Mission statements
• Consider Critical Success Factors
• Perform a brief SWOT analysis
• Identify and prioritize key Initiatives
Introduction – Key Points

The Strategic Plan (SP) is the means by which the IA activity Vision and Mission will be pursued.

• The PG is effective for first-time SP development
• IPPF – strategic approach
• Guide for review of existing SP
• Definition of Strategy
Introduction – Key Points

• Enables allocation of financial and human resources
• Benefits – Positioning to meet expectations of stakeholders
• Systematic and structured process
• Achieve Vision and Mission and audit the right things, at the right time, in the right way!
Step #1 Understand Industry and the Organization’s Objectives

- Obtain thorough understanding of industry and objectives
- Value proposition
  - Contribute to achievement of organizations objectives
  - Provide assurance
    - Ethical environment
    - Culture of responsibility
- Review organization’s SP
Step #2 Consider the IPPF

- IPPF – conceptual framework, ideal professional practice
- Auditors should reflect values of the Standards and Code of Ethics
- Auditors should reflect organization’s values
- Core Principle #4 – “Aligns with the strategies, objectives and risks of the organization.”
Step #3 Determine and Understand Stakeholder Expectations

- Critical step
- Must include key internal and external stakeholders
- Direct communication
- May need to provide background
- Evaluate and resolve conflicts
- Document and confirm
Step #3 Determine and Understand Stakeholder Expectations

- Consider surveys to prioritize expectations and obtain feedback

<table>
<thead>
<tr>
<th>Activity Number</th>
<th>Composite Score</th>
<th>Activity Description</th>
<th>Quartile</th>
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<tbody>
<tr>
<td>1</td>
<td>10</td>
<td>Cost Efficient Operations</td>
<td>First</td>
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<td>2</td>
<td>7</td>
<td>Compliance with Professional Standards</td>
<td>Second</td>
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<td>3</td>
<td>9</td>
<td>Promoting Customer Service Focus</td>
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<td>4</td>
<td>1</td>
<td>Focus on Critical Risks</td>
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<td>5</td>
<td>5</td>
<td>Aligning Service Plan with Strategic Plan</td>
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<td>6</td>
<td>12</td>
<td>Document/Communicate Audit Value</td>
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<td>7</td>
<td>2</td>
<td>Effectively Meeting Stakeholder Expectations</td>
<td>Third</td>
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<td>8</td>
<td>3</td>
<td>Effectively Managing Stakeholder Relationships</td>
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<td>9</td>
<td>6</td>
<td>Aligning Risk/Control/Compliance Functions</td>
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<td>10</td>
<td>8</td>
<td>Continuous Improvement/Innovation</td>
<td>Fourth</td>
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<td>11</td>
<td>11</td>
<td>Effectively Leveraging Technology</td>
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<td>12</td>
<td>4</td>
<td>Maintaining Appropriate Talent</td>
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</table>
Step #4-A Create or Update IA Activity Vision Statement

- Develop and update based on stakeholder expectations and IIA guidance
- Cannot be all things to all people
- Articulate philosophy and what IA activity hopes to contribute to the organization
- Desired future state
Step #4-A Create or Update IA Activity Vision Statement

Vision

To be a high-performing internal audit activity that meets the expectations of our stakeholders and adheres to The Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (Standards) and the attributes of high performance recognized by leading internal audit activities. This will enable us to be a business partner and a trusted advisor, recognized as a driving force behind a culture of governance, accountability, compliance, and execution that helps in the achievement of the organization’s objectives.

PG Example – Appendix p12
Step #4-A Create or Update IA Activity Vision Statement

Exercise 1

• Consider your IA activity and understanding of stakeholder expectations
• Formulate a new vision statement or revise your current vision statement based on these principles and examples
• Concise but lofty and noble
Vision

Serve as a preferred advisor consistently delivering impactful strategic assurance and consulting services while functioning as a catalyst in the solutions process. Champion University initiatives and the execution of strategic objectives by contributing to the improvement of governance, risk management, and control processes.
Step #4-B Create or Update IA Activity Mission Statement

- Develop and update based on stakeholder expectations and IIA guidance
- Based on Vision statement
- Outlines business purpose, plans, and integration with organization’s SP
- Should resonate with personnel
- Basis for strategic plan development
Step #4-B Create or Update IA Activity Mission Statement

Mission

Deliver an independent assessment of financial, regulatory, and operational risks and control effectiveness to the organization’s management and the board. We will provide control expertise to minimize risks, improve process quality, and enhance operational effectiveness in furtherance of our business goals.

PG Example – Appendix p12
Step #4-B Create or Update IA Activity Mission Statement

Exercise 2

• Consider your IA activity and your new or revised vision statement.
• Draft a new mission statement or revise your current mission statement based on these principles and examples.
• Outline purpose, plans, and linkage to organization’s SP
Mission

To enhance and protect organizational value by providing risk-based and objective assurance, advice and insight in accordance with the University’s risk profile and allotted resources. We deliver accurate, timely, and relevant information to assist the Board, Senior Administration, and management teams in their stewardships to educate, inspire, and serve their constituencies in accordance with the University’s Mission, strategic planning goals and initiatives.
Step #5 Identify Critical Success Factors (CSFs)

- **Key Question:** What needs to go right to achieve the Vision and Mission?
  - CSFs are particularly valued or provide a significant advantage
- Provide elements that all major initiatives should be vetted against
  - Helps ensure resources are focused on important activities
Step #5 Identify Critical Success Factors (CSFs)

• Three questions to consider when developing CSFs

1. **Positioning** – Is the IA activity strategically positioned and supported (resources)?

2. **Processes** – Are processes enabling and dynamic in meeting organization needs?
Step #5 Identify Critical Success Factors (CSFs)

- Three questions to consider when developing CSFs (continued)

3. **People** – Does the IA activity have the right people strategy to deliver its mission (structure, skills, supervision, training development)

- Monitoring ensures attention and progress
Step #5 Identify Critical Success Factors (CSFs)

Example - World Intellectual Property Organization (WIPO) Internal Oversight Division (IOD) CSFs

1. Strategic Positioning and Reporting Line of IOD within WIPO
2. Focus on the Organization’s Highest Risks and Strategy
3. Provide Impactful Reporting to Stakeholders
Step #5 Identify Critical Success Factors (CSFs)

WIPO IOD CSFs – Example (continued)


5. IOD Acquires, Retains and Develops Highly Skilled, Talented Staff

6. IOD Implements a Quality Assurance and Improvement Program (QAIP)
Step #6 Assess the IA Activity’s Current State via SWOT Analysis

• Helps to identify what should be incorporated into the SP

• Strengths, Weaknesses, (Internal) Opportunities, Threats (External) against the Vision, Mission, and CSFs

• Identify the key internal and external factors to achieve the strategy
Step #6 Assess the IA Activity’s Current State via SWOT Analysis

<table>
<thead>
<tr>
<th>THE FOLLOWING ARE DEFINITIONS OF A SWOT ANALYSIS’ INDIVIDUAL COMPONENTS:</th>
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<tbody>
<tr>
<td><strong>STRENGTHS</strong></td>
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<tr>
<td>Internal Origin</td>
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<td>External Origin</td>
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PG Example – Appendix p11
Step #6 Assess the IA Activity’s Current State via SWOT Analysis

- Uniqueness of environment
- Many topics to consider
  - Organizational Structure
  - Resource Requirements
  - Technology and Tools
  - Sourcing Models
  - Coordination with Other Functions
Step #6 Assess the IA Activity’s Current State via SWOT Analysis

• Topics to consider (continued)
  ✓ Methods to Deliver Services
  ✓ Stakeholder Communication
  ✓ People Development
  ✓ Performance Monitoring
  ✓ Feedback and Approval
Step #6 Assess the IA Activity’s Current State via SWOT Analysis

Exercise 3

• Attempt a brief SWOT analysis with two factors for each element
• As related to Vision, Mission and CSFs
• Can you formulate any strategy statements?
<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
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<tbody>
<tr>
<td>1. Defined internal audit vision, mission, values, and charter</td>
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<td>2. Strong respect and credibility of CAE with senior management</td>
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<td>3. Defined and validated audit universe</td>
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<td>4. Formal risk-based planning process with management validation</td>
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<td>5. Individual staff training/certification plans</td>
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<td>6. Independent and objective organization-wide perspective</td>
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<td>7. Staff adaptable to change; positive attitude</td>
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<td>8. Diverse skills, backgrounds, and business knowledge of staff</td>
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<td>9. Process focus vs. transactional focus</td>
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<td>10. Increased partnering with the business</td>
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<td>11. Formalized follow-up process</td>
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<td>1. Skill gaps – consulting and fraud knowledge</td>
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<td>2. Undefined staff development model</td>
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<td>3. Limited staff career opportunities – not a talent source for the business</td>
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<td>4. Risk assessment not mapped to organization’s strategy; limited identification of emerging risks</td>
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<td>5. Audit plan limited to one year</td>
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<td>6. Limited understanding of stakeholder expectations</td>
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<td>7. Inconsistent communication with stakeholders</td>
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<td>8. Emphasis on findings (“gotcha” and “policeman” mentality)</td>
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<td>9. Limited involvement in organization’s strategic decisions</td>
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<td>10. Lack of formal knowledge-sharing program</td>
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<td>11. Limited focus on operational efficiency vs. effectiveness</td>
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<td>12. Limited use of data analytics and data mining</td>
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<td>13. Performance evaluations only occur annually</td>
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<td>14. Long audit cycle time</td>
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<td>15. Not fully aligned with IIA Standards</td>
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<td>16. Audit methodology does not address all types of engagements</td>
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<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
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<tbody>
<tr>
<td>1. Improve perception of staff skill, knowledge, and capabilities</td>
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<tr>
<td>2. Confirm and clarify stakeholders’ evolving expectations</td>
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<tr>
<td>3. Educate stakeholders on internal audit’s role and capabilities</td>
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<tr>
<td>4. Become involved in new initiatives early to incorporate controls</td>
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<td>5. Educate management on recurring/common issues</td>
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<td>6. Collaborate with other assurance/risk management functions throughout the year and during risk assessment</td>
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<td>7. Introduce risk and control self-assessments</td>
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<tr>
<td>1. Predisposition of board to focus on financial and compliance exposures without balanced attention to operational risks</td>
<td></td>
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<tr>
<td>2. Implementation of findings constrained by budgets, staffing, and governance</td>
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<td>3. Reduction in management cooperation</td>
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<td>4. Emerging and changing risks increase skill gaps</td>
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<td>5. Lack of awareness of business initiatives</td>
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<td>6. Adapting to higher IIA Standards and stakeholder expectations</td>
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<tr>
<td>STRENGTHS</td>
<td>WEAKNESSES</td>
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<tr>
<td>1. Defined internal audit vision, mission, values, and charter, as well</td>
<td>1. Limited staffing</td>
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<tr>
<td>as clear roles, responsibilities and reporting line</td>
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<tr>
<td>2. Policies, procedures and manuals including formal reporting standards</td>
<td>2. Significant changes in staffing</td>
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<tr>
<td>and templates</td>
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<tr>
<td>3. Individual staff training/certification plans</td>
<td>3. Institutional knowledge gap</td>
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<tr>
<td>4. Formalized recommendation follow-up and reporting process</td>
<td>4. Skill gaps due to limited human resources</td>
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<tr>
<td>5. Constructive relationship with Senior Management and IAOC</td>
<td>5. Limited use of data analytics and data mining</td>
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<tr>
<td>6. Quality assurance and improvement program in place</td>
<td>6. Limited staff career opportunities (within IOD</td>
</tr>
<tr>
<td></td>
<td>and WIPO)</td>
</tr>
<tr>
<td>7. Use of integrated Audit Management System including recommendation</td>
<td>7. Limited participation as observer on various</td>
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<tr>
<td>follow-up process</td>
<td>Boards</td>
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</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Improve perception of staff skill, knowledge, and capabilities</td>
<td>1. Organization slow to implement recommendations</td>
</tr>
<tr>
<td>2. Educate stakeholders on internal audit’s role and capabilities</td>
<td>2. Impairment of independence</td>
</tr>
<tr>
<td>3. Become involved in new initiatives early to incorporate controls</td>
<td>3. Ineffective communication with management</td>
</tr>
<tr>
<td>4. Increased collaboration with other assurance/risk management functions</td>
<td>4. Reduction in management cooperation</td>
</tr>
<tr>
<td>5. Introduce risk and control self-assessments</td>
<td>5. Increased skill gaps</td>
</tr>
<tr>
<td>6. Enhance knowledge and skills in data analytics</td>
<td>6. Staff turnover</td>
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<tr>
<td>7. Effective use of outsourcing and co-sourcing</td>
<td>7. Lack of awareness of evolving Organizational</td>
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<td>strategies and emerging risks (i.e. information</td>
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<td></td>
<td>and cybersecurity, cloud, etc.)</td>
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</table>
Step #7 Identify and Prioritize Key Initiatives

- Those with significant impact on:
  - Critical Success Factors and therefore Vision and Mission
- For each initiative specify:
  - Timeline for Implementation
  - Desired Objectives
  - Performance Measurements
  - SWOT Elements
CSF 3: Maintain Efficient and Effective Audit Processes

Initiative: Develop a manual that defines the methodology for performing all internal audit assurance and consulting engagements.

SWOT Mapping:  Weaknesses – 1, 11, 15, 16
                Opportunities – 7

Objectives:

• Identification of the required and recommended practices for all engagement types, helping to ensure a consistent approach that adheres to the Standards.

Key Tasks:

• Assess current processes for planning, fieldwork, reporting, and follow-up of assurance and consulting engagements against the IPPF.
• Refine processes to align with the IPPF, identifying those that are required vs. recommended.
• Develop control self-assessments tools.
• Validate the internal audit manual with all staff.

Time frame: June – August 201X
CSF 2 – Expand IT Auditing and the Use of Technology

- **Initiative:** Expand the department’s capacity (resources and tools) to provide IT auditing services in response to the increased cyber security and related IT risk factors.

- **Objective:**
  - Continue to increase the scope of IT auditing coverage and provide assurance and consulting services to ensure that risks and vulnerabilities are managed and mitigated and that internal control effectiveness and governance practices are regularly evaluated.
  - Increase utilization of technology and explore use of data analytics, data mining, continuous auditing, and the feasibility of a Governance, Risk Management, and Compliance (GRC) model.

- **Key Tasks:**
  - Develop an IT audit strategy and obtain approval for its implementation.
  - Consider the merits and associated costs of IT audit expansion through 1) contracting, 2) in-sourcing with Information Security personnel, 3) hiring staff with IT credentials and experience, or 4) a combination of all three.
  - Explore the development of an information technology audit internship utilizing a Business Intelligence and Analytics (BIA) student.
  - Collaborate with the ERM Committee, General Counsel, and Vice Provost for Information Technology to assess the feasibility of implementing a GRC model.
  - Ensure that staff are properly trained in information technology risks, controls, and auditing methods.

- **Time Frame:** Annually and on-going. Additional detailed plans and project timelines to be formulated as resources and capacity allow.
Step #8 Periodic Review of the IA Activity Strategic Plan

- Frequency of review determined by CAE with Board input
- Factors to consider:
  - ✓ Degree of growth and maturity
  - ✓ Changes in organization’s strategy
  - ✓ Degree of reliance on risk assurance
  - ✓ Significant changes in IA activity resources
Step #8 Periodic Review of the IA Activity Strategic Plan

• Factors (continued)
  ✓ Significant change in laws or volume of changes to organization policies and procedures
  ✓ Degree of change in control environment
  ✓ Key changes in leadership
  ✓ Strategic plan results
  ✓ Results of assessments
Simplified Process Flow

1. Stakeholder Expectations
2. Current State Analysis
3. Vision & Mission
4. Objectives & Initiatives & Activities
5. Feedback & Approval
6. Implement Strategy

Measure & Report Performance Against Strategy

Improving Internal Audit Performance Through Strategic Planning, Araj and Kuling, IA Middle East, March 2018
“A good plan, violently executed now, is better than a perfect plan next week.”

- George S. Patton
Thanks for your time and attention!

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I'LL MAKE YOUR LIFE MISERABLE! I'LL THWART YOUR EVERY MOVE!

HI. I'M THE NEW SADIST.

WHAT HAPPENED TO THE OLD ONE?

HE WENT TO SADIST PARADISE.

THE AUDITING DEPARTMENT?