Strategic Planning Using the Internal Audit Capability Model

IIA – Austin Chapter, December 13, 2016
Objectives

- Define and Discuss the elements of the Capability Model
- Identify and Discuss how the model can be used
  - Self Assessment
  - Strategic Planning
- Capability Model Refresh
What is a Capability Model?

- Framework for Assessment
- Communication Vehicle
- Roadmap for Orderly Improvement
The Internal Audit Capability Model

- October 2006 – May 2009
- IIA Research Foundation Project
- Validated in collaboration with the World Bank
  - Global validation
  - > 300 people in > 30 countries
    - Texas Commission for Environmental Quality
    - Office of the City Auditor – Austin, TX
- Original focus – public sector internal audit
The Internal Audit Capability Model

- Framework for Assessment
- Communication Vehicle
- Roadmap for Orderly Improvement
Underlying Principles

- Assessing capacity
- Three variables
  - Environment
  - Organization
  - Internal Audit Activity
- Internal auditing must be cost-effective
- No “One Size Fits All”
Levels of Capability

- Level 1 – Initial
- Level 2 – Infrastructure
- Level 3 – Integrated
- Level 4 – Managed
- Level 5 – Optimized
Level 1 - Initial

- No sustainable,repeatable capabilities – dependent upon individual efforts
  - The internal audit infrastructure and its institutional capability are not developed
  - Ad hoc and unstructured
Level 2 - Infrastructure

- Sustainable and repeatable internal audit practices and procedures
  - Reporting relationships, management and administrative infrastructures, and professional practices and processes are being established
  - Will likely partially conform to the Standards
Level 3 - Integrated

- Internal audit management and professional practices are uniformly applied
  - Policies, processes and procedures are defined and documented
  - Focus is on team building and capacity
  - Will likely generally conform to the Standards
Level 4 - Managed

- Internal audit integrates information from across the organization to improve governance and risk management
  - A well-managed business unit
  - Integral part of the organization’s governance and risk management
Level 5 - Optimizing

- Internal audit is learning from inside and outside the organization for continuous improvement
  - Has “world class” best-practice performance
  - Critical part of the organization’s governance structure
Elements of Internal Auditing

- Services and Role of Internal Audit
- People Management
- Professional Practices
- Performance Management and Accountability
- Organizational Relationships and Culture
- Governance Structures
Services and Role of Internal Auditing

- **Role** – to provide independent and objective assessments to assist the organization in accomplishing its objectives and improve operations

- **Services** – vary among different jurisdictions and environments; are typically based on the organization’s needs and the internal audit activity’s authority, scope, and capacity
People Management

- The process of creating a work environment that enables people to perform to the best of their abilities.
  - Developing clear job descriptions
  - Providing effective orientation, continuing education, professional development, and training
  - Providing ongoing coaching and continuous feedback
  - Providing appropriate promotional and career development opportunities
Professional Practices

- Reflects the full backdrop of policies, processes, and practices that enables the internal audit activity to be performed effectively and with proficiency and due professional care
  - Capacity of the internal audit activity to align with the organization’s priorities and risk management strategies
  - Ability to contribute to continuous improvement of the internal audit activity and the organization
  - Includes the development and maintenance of a quality assurance and improvement program
Performance and Management Accountability

- The information needed to manage, conduct, and control the operations of the internal audit activity and account for its performance and results
  - Identification and communication of sufficient and relevant information to enable performance of assigned responsibilities
  - Management of relevant information systems and performance information
  - Procedures to manage and protect the integrity of data and produce appropriate information and results
  - Reporting on the effectiveness of the internal audit activity
Organizational Relationships and Culture

- The organizational structure and internal management and relationships within the internal audit activity
  - CAE’s relationship with senior management
  - Internal audit’s relationships with other units in the organization
  - Ability to access the information and people necessary to conduct work
  - Internal audit’s relationship with other review groups
Governance Structures

- The reporting relationship of the CAE and how the internal audit activity fits within the organization and governance structure
  - The means by which the independence and objectivity of internal audit is assured
  - Policies and processes established to support and resource the internal audit activity
<table>
<thead>
<tr>
<th>Level 5 – Optimizing</th>
<th>Services and Role of Internal Audit</th>
<th>People Management</th>
<th>Professional Practices</th>
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<tbody>
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<td>Leadership involvement with professional bodies Workforce projection</td>
<td>Continuous improvement in professional practices Strategic IA planning</td>
<td>Public reporting of IA effectiveness</td>
<td>Effective and ongoing relationships</td>
<td>Independence, power, and authority of the IA activity</td>
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<td>Overall assurance on governance, risk management, and control</td>
<td>IA contributes to management development IA activity supports professional bodies Workforce planning</td>
<td>Audit strategy leverages organization’s management of risk</td>
<td>Integration of qualitative and quantitative performance measures</td>
<td>CAE advises and influences top-level management</td>
<td>Independent oversight of the IA activity CAE reports to top-level authority</td>
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<td>Advisory services Performance/ value-for-money audits</td>
<td>Team building and competency Professionally qualified staff Workforce coordination</td>
<td>Quality management framework Risk-based audit plans</td>
<td>Performance measures Cost information IA management reports</td>
<td>Coordination with other review groups Integral component of management team</td>
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<td>Professional practices and processes framework Audit plan based on management/ stakeholder priorities</td>
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<td>Managing within the IA activity</td>
<td>Full access to the organization’s information, assets, and people Reporting relationships established</td>
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Key Process Areas (KPAs)

- The main building blocks that determine the capability of an internal audit activity
  - what must be in place and sustained at that capability level before the activity can advance to the next level?
- Each KPA consists of:
  - Purpose
  - Essential activities
  - Outputs and outcomes
  - Institutionalizing practices
Mastering a KPA

Common Features

- Capability Level
- Key Process Area
- Purpose
- Essential Activities
- Outputs
- Outcomes
- Mastery

Institutionalizing Practices
Institutionalizing a KPA

Key Process Area

Commitment to Perform

Ability to Perform

Activities Performed

Measurement

Verification
Common Features to Institutionalize KPAs

- **Commitment to perform** is the commitment to master the KPAs associated with reaching a particular capability level
  - Emphasizes the importance of organizational commitment
  - Sponsorship through support by senior management

Senior management support is an important factor in developing strong internal audit capabilities.
Common Features to Institutionalize KPAs

- **Ability to perform** relates to the ability to carry out the essential activities competently.
- The **activities performed** feature describes implementation activities.
- **Measurement** refers to *ongoing measurement and analysis* of activities and progress in achieving the KPA’s purpose.
Common Features to Institutionalize KPAs

- **Verification** includes *continuous verification* to ensure that activities are carried out in accordance with policies and procedures.
Self-Assessment Steps

- Understand the capability model
- Identify KPAs that appear to be institutionalized
  - Obtain and review supporting documentation
  - Obtain and review documentation relating to the organization and external environment
Self-Assessment Steps

- Interview managers/stakeholders
  - What are their views on the KPAs internal audit has institutionalized?
  - Is there a supportive environment for internal audit?
  - Is there anything influencing or impacting internal audit's effectiveness?
  - Is internal audit adding value to the organization?
  - What are the leading practices demonstrated by internal audit?
Self-Assessment Steps

- Conduct sessions with internal audit staff and management
  - Is the purpose of the KPA achieved?
  - Are the identified outputs and outcomes achieved?
  - Is the KPA mastered? Institutionalized?

- Determine the capability level of internal audit
- Identify strengths and areas for improvement
- Communicate results
Process Flow

Analyze each KPA for Implementation Status → KPA Status?

- In Progress
- Not in Progress

Gather and document evidence → Does evidence support the KPA’s purpose?

- Yes → Fully Implemented
- No → Does evidence partially support KPA’s purpose?

- Yes
- No → In Progress

Not in Progress

- Yes
- No
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### Completed Matrix

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### Key

- **NOT IN PROGRESS**
- **IN PROGRESS**
- **FULLY IMPLEMENTED**
Strategic Planning

- Complete a self-assessment using the capability model – where are you?
- Identify level of capability desired based on the organization’s needs and available resources – where do you want to be?
- Develop/confirm the internal audit vision statement
Strategic Planning

- Identify and prioritize areas for improvement
- Develop strategic objectives and shorter-term project goals
- Prepare work plans
- Present to the audit committee
- Provide updates and revisit periodically
Organizational Relationships – an Example

<table>
<thead>
<tr>
<th>Key Process Area</th>
<th>Implementation Status</th>
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<tr>
<td>5  Effective and Ongoing Relationships</td>
<td>In Progress</td>
</tr>
<tr>
<td>4  CAE Advises and Influences Top-Level Management</td>
<td>In Progress</td>
</tr>
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<td>3  Coordination with Other Review Groups</td>
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<tr>
<td>Integral Component of Management Team</td>
<td>Fully Implemented</td>
</tr>
<tr>
<td>2  Managing within the IA Activity</td>
<td>Fully Implemented</td>
</tr>
<tr>
<td>1  No KPAs</td>
<td>N/A</td>
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</table>
## Strategic Goal – an Example

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<tr>
<th>Goal</th>
<th>Gap Identified</th>
<th>Action Planned</th>
<th>Accomplishment Indicator</th>
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<tr>
<td>Level 4 – Managed: from “In Progress” to “Fully Implemented” by 2018</td>
<td>The audit role has an inherently negative perception.</td>
<td>To improve the Department’s perception of auditing by continuing to work with management to improve business processes, assess fraud risk, and achieve higher efficiency.</td>
<td>Increase in the number of special requests for advisory services added to the annual audit plan. Also, recognition of IA Division as a strategic partner in high-level meetings.</td>
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Visioning and Communication Tool – An Example

Maturity Model consists of the following elements:

- Services and Role of IA
- People Management
- Professional Practices
- Performance Management and Accountability
- Organizational Relationships and Culture
- Governance Structure

Level 1: Initial
Level 2: Infrastructure
Level 3: Integrated
Level 4: Managed
Level 5: Optimizing

2016 – Self-Assessment results show Level 2 - Infrastructure
2017 Planned
2018 Planned
2020 Planned
Tools/Activities That Can Help Focus Improvement

- Develop a marketing strategy
  - Services and Role of Internal Audit
  - People Management
  - Organizational Relationships and Culture
- Perform a Skills Gap Analysis
  - Services and Role of Internal Audit
  - People Management
Tools/Activities That Can Help Focus Improvement

- Quality Assurance Improvement Program (QAIP)
  - Professional Practices
  - Performance Management and Accountability
Considerations

- Mandatory guidance in the IPPF is embedded at Level 3 – Integrated
- Is Level 3 sufficient?
- When and why to aspire to Level 4 or 5
- An internal audit activity may choose to stay at a particular level
- Consider environmental and organizational factors
The Internal Audit-Capability Model – 2016 Refresh

- Overall conceptual base sound
  - The six elements and 41 KPAs remain
- External environmental factors, professional practices, including the IPPF, have evolved
- Alignment with current practices
- Development of assessment tools
QUESTIONS
Thank you!

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Health and Human Services Commission
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