



THE STRATEGIC IMPERATIVE FOR INTERNAL AUDIT

Why a robust internal audit strategy is a board-level priority

Financial institutions and listed corporate organisations are navigating an increasingly complex risk landscape, Internal Audit has never carried greater strategic weight. Boards and executive teams are facing changing customer expectations, market disruption, accelerated technology change and continued regulatory change and increased scrutiny, which all demand more from the assurance function than just well-executed audit delivery.

The difference between an internal audit function that delivers the plan and one that genuinely drives organisational value comes down to one thing: **a clear, commercially grounded internal audit strategy.**

The **Global Internal Audit Standards**, the profession's benchmark framework, are explicit on this point. Effective internal audit functions are expected to demonstrate strategic alignment with organisational objectives, a clear mandate, and the capacity to deliver oversight, insight and foresight that adds measurable value.

A defined and well executed internal audit strategy is not a luxury; it is a professional and governance imperative.

DEFINE WITH INTENT

Based on strategies we have developed with the global, international and Australian financial institutions, and major listed corporates, **a robust internal audit strategy is defined using nine interconnected elements:** recognition of the key drivers of change relevant to internal audit; a rigorous current state assessment; a clearly articulated future state; explicit vision aligned to the business strategy; a compelling business case; active sponsorship and stakeholder management; and a detailed, executable roadmap supported by strong change management.

The consideration of those elements, as illustrated in figure 1, will ensure the strategy is right for the organisation, endorsed by its stakeholders, and not a generic statement or aspirational noise.

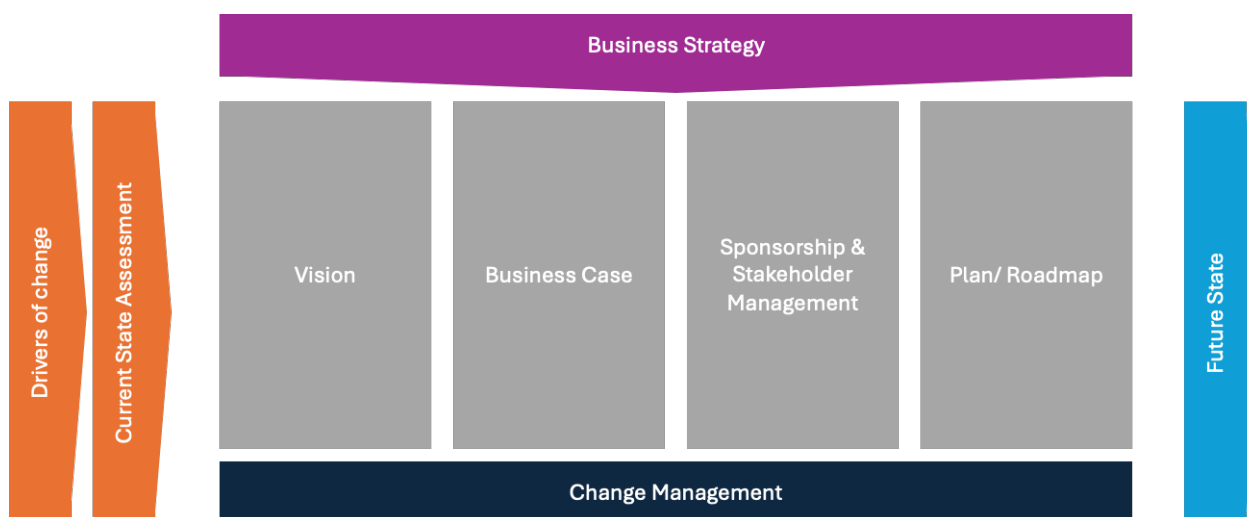


Figure 1: Process to deliver tailored, accepted and commercial internal audit strategy

Internal Audit's strategy should be an aspirational statement, based on clear objectives and defined facts, that confirms the destination and the journey. In defining the strategy, the Chief Audit Executive, has the opportunity to redefine their vision and purpose, confirm the 'audit function of the future', establish key priorities and major changes (as well as continuous improvement initiatives) that will move the dial, confirm the expectations of the Audit Committee and the Executive and agree 'value and outcome based' performance targets.

Insights that inform development process

- **Connect to the business and functional strategies:** The alignment to the business strategy (and specific divisional/ functional strategies, including specifically risk and compliance) is extremely important to help communicate the vision and purpose of internal audit and to ensure alignment and support.
- **Create something unique and bespoke:** The key elements of any 'internal audit strategy' will have similarities, but the actual substance should be unique to the organisation. The more bespoke the strategy the greater the opportunity of successful delivery through increased focus on what matters, greater accountability and support from the business.
- **Focus on the big rocks:** Calling out the 3 – 5 high priority major changes, supported by specific areas of continuous improvement, will help communicate the strategy, the actual change, the associated investment and expected return and simplify the execution.
- **Tell the story and describe the journey:** The strategy, defined on a page or a number of pages, should be backed by a talk track that allows the strategy to be articulated consistently with key stakeholders across the business and within the Internal Audit team (including their co-sourced provider) and in a way they understand and support.
- **Call out the key drivers and enablers:** Vision, ambition and an executable plan, are important and are required to define the future and the change required, but they need to be balanced with agreed assumptions and recognised limitations that will allow expectations to be managed on the journey.
- **Always focus on the plan to deliver:** The strategy articulation is the blueprint and sets the expectations (as it's developed and when it's approved), but it needs to be backed by a robust roadmap/ executable plan, with defined milestones, that can deliver the defined outcomes on time and to the highest quality.

FOCUS ON VALUE

The Vision for Internal Audit should reflect its ambition, it should resonate and align with the business, and it should define the value that will be delivered. It's about Internal Audit's contribution to the organisation that is anchored to a clear vision and defined outcomes, that are measured and delivered over time, as illustrated below.

"To make a significant and tangible contribution to the success of the Group by providing independent and objective assurance to the Executive and the Board on the effectiveness of governance processes, risk management and control and helping the business leaders deliver the strategy"

"Contributing to better Group and customer outcomes through the provision of trusted, objective and insightful assurance"

"To be a strategic, data driven function that strengthens trust, resilience, confidence and provides forward-looking assurance and insights"

"To be the most consistent and innovative partner to the business – delivering quality assurance, insight and foresight"

The internal audit strategy must be right for the organisation; it should reflect their unique position and specific ambitions. However, there are a number of areas that are being targeted by Internal Audit functions to extract more value and allow Internal Audit to provide the greater oversight, insight and foresight that is demanded by their stakeholders.

While not exhaustive, the items in figure 2 highlight the opportunities across four distinct areas that are being progressed by the financial institutions and listed corporate organisations. While none of the opportunities are mutually exclusive, they demonstrate the potential for Internal Audit to drive greater value and increase the return on the assurance investment.

Stakeholders	<ul style="list-style-type: none"> Value & reputation management (including stronger stakeholder engagement) Brand management, incl. values, behaviours and culture and overall quality/ outcomes Trusted business advisor, including ways of working with the business Product and service offerings, including distinction between assurance and advisory High impact reporting, including commercial insight and foresight Open dialogue and communication, including ongoing observations and insights
Governance	<ul style="list-style-type: none"> Operating model and supporting structures, including business alignment and collaboration Source and access talent and capability, including access to SMEs and market insights Talent development, including auditor of the future & critical technology/ AI skills Ways of working, including change based on innovation, performance and behaviours Knowledge management and expertise, including business and technical domains Connected teams & stronger collaboration, including risk, compliance and assurance functions
Methodology	<ul style="list-style-type: none"> Dynamic planning/ intelligent risk assessment, including targeted coverage Aligned assurance, incl. 1st and 2nd lines of defence, including common framework and processes Risk/ continuous monitoring, including insights & emerging risks Agile auditing, including increased focus on capability and access to data/ information Methodology modernisation and flexibility, including delivery of specific service offerings
Technology	<ul style="list-style-type: none"> Technology & tooling, incl. strategy and alignment of business and Internal Audit roadmaps Data analytics/ AI, including strategy, delivery and advocacy Audit operations and enablement, including capability build and technology/ AI application

Figure 2: Major opportunities being considered in contemporary Internal Audit strategies

DELIVER WITH CONFIDENCE

Executing the strategy and delivering the vision requires **a disciplined approach supported by robust project management, change management and defined performance metrics**. Leading functions can connect five critical elements to drive change, deliver outcomes and realise the benefits, as illustrated in figure 3.

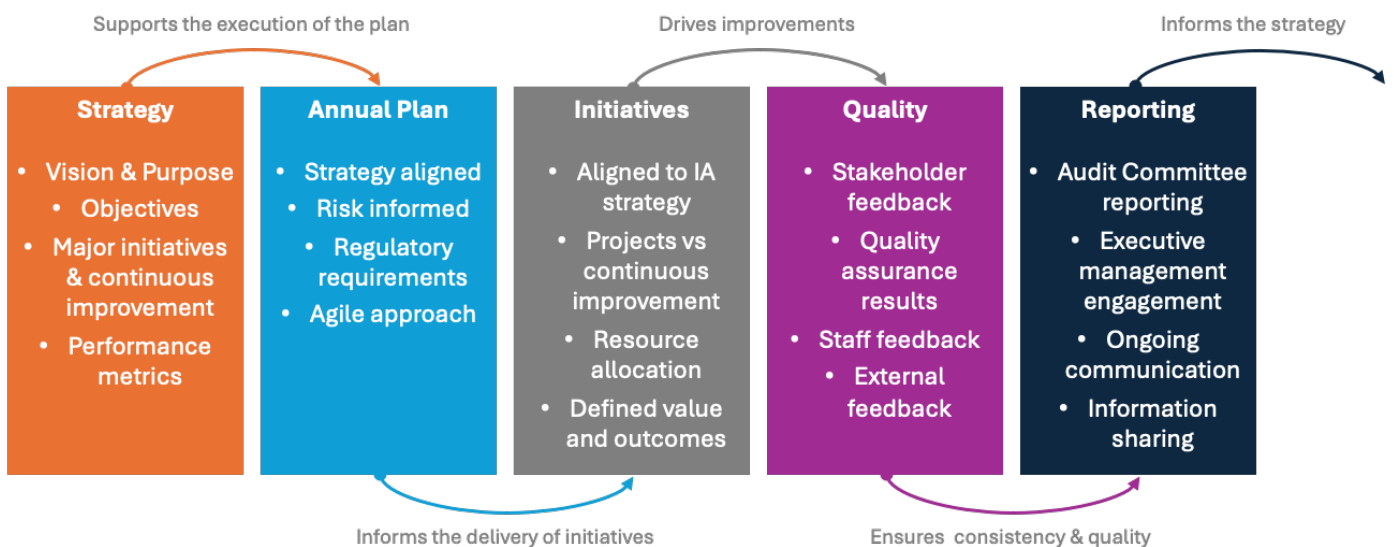


Figure 3: Better practice approach to strategy execution

Insights to influence strategy execution

- **Focus on the outcomes and the value:** Stakeholders need to understand the journey, the outcomes and the value that will be delivered on the way (from their unique frames of reference) that are confirmed through ongoing communication and reporting.
- **Define Audit (and auditor) of the future:** Definition of ‘audit of the future’ is fundamental and must be communicated (with appropriate external references) and accepted and endorsed by all stakeholders.
- **Embrace the technology evolution:** Technology, including AI, and its use within the business will continue to evolve at pace and Internal Audit will need to find the balance between developer, user, influencer and advocate, it will need to innovate and adapt and demonstrate a high degree of agility.
- **Focus on change management:** If the strategy is sufficiently aspirational or transformational then the change (to stakeholders, business, staff and regulators) will need to be carefully communicated and managed to drive buy-in, acceptance and support (especially if other functions such as risk or compliance are evolving at the same time).
- **Access the right capability:** Changing while delivering is always challenging and is a fundamental question for the business case, i.e. balancing funding, capability and capacity required to deliver with the efficiency and effectiveness delivered by the change. The actual capability required to drive and execute the change may or may not reside within the current team, but it should be assessed and sourced if required.

To deliver and demonstrate value the Chief Audit Executive needs to redefine the traditional performance measures (e.g. plan delivery, budget management). They need to develop a scorecard that demonstrates an increased return on investment and actual value to the Audit Committee and the Executive, as illustrated in Figure 4.

Outcome based metrics demonstrating value	Output based metrics demonstrating delivery
<ul style="list-style-type: none"> ▪ Agility to cover emerging risks ▪ Business engagement/ requests ▪ Audit findings and insights ▪ Significant risk matters identified ▪ Overdue audit findings ▪ Significant matters after audit ▪ Value of Internal Audit services ▪ Capability of resources, incl. SMEs ▪ Quality of reports ▪ Audit Committee feedback ▪ Executive/ Management feedback ▪ Major internal audit initiatives delivered ▪ Innovation/ efficiency gains 	<ul style="list-style-type: none"> ▪ Coverage of material risks ▪ Progression of plan ▪ Execution milestones delivered, incl. reporting ▪ Audit using data analytics/ AI procedures ▪ Validation of audit issue completion ▪ Budget to actual financials ▪ Employee engagement ▪ Average training hours, including mandatory ▪ Staff turnover/ retention ▪ Vacancy rates ▪ IA standards conformance ▪ Unsatisfactory QA findings/ outcomes ▪ External Quality Assurance outcome

Figure 4: An illustrative value based Internal Audit scorecard being adopted by leading Internal Audit functions

ABOUT RESILIRE BUSINESS CONSULTING

At Resilire Business Consulting we utilise our expertise in governance, resilience and assurance to support Boards, CEOs and Executive Teams to build resilient businesses by helping to create transparent, consistent, efficient, adaptable and effective operating models. <https://resilirebusinessconsulting.com.au>

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