

*Strategic
Planning for
Internal Audit*

A CAE's Guide to Driving Value Creation

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The Importance of Strategic Planning for Internal Audit

In recent years, many boards have sharpened their focus on the business strategies of their organizations in response to mounting financial pressures and the combined impact of disruptive change and new technology. As a result, internal audit groups around the world are being challenged to keep pace with the strategies of their organizations while seeking to develop appropriate strategies for their own internal audit activities. Moreover, internal auditors are facing the continuing need to understand and address the specific expectations of executive management and the audit committee, their key stakeholders, to ensure that the activities and strategies of internal audit are both relevant and effective. Given the broad scope of these strategic considerations, and their increasing importance to the global internal audit community, the **2018 TeamMate Insights Survey** focused on internal audit practices and processes relating to strategic planning for internal audit.

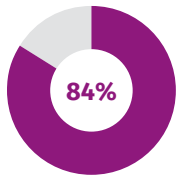
To facilitate the planning process, TeamMate has developed the **TeamMate Internal Audit Effectiveness Model**, designed to streamline and enhance the internal audit planning process. The model, which reflects input from internal audit functions around the world, can support organizational efforts to position internal audit as a critical function providing added value to key stakeholders and the organization as a whole when operating in a “highly effective” manner.

Our approach to strategic planning leverages insights gained from TeamMate’s 2018 Insights Survey results. The TeamMate approach to strategic planning also supports three key dimensions of the strategic planning process that we consider essential for an internal audit function to both add value and to operate at a high level of effectiveness:

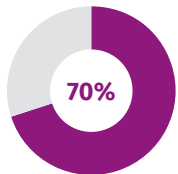
- Addressing stakeholder needs and expectations effectively
- Operating core internal audit processes in a highly effective manner
- Conforming to the **International Standards for the Professional Practice of Internal Auditing (The IIA Standards)** and any applicable regulatory requirements

To be highly effective, an internal audit function needs to address each of these performance-related dimensions in a comprehensive manner. In this report we will describe how chief audit executives (CAEs) can meet these challenges and develop strategic plans designed to optimize internal audit performance.

Business Trends and Their Impact on Internal Audit



CEOs around the world are developing and deploying strategies focusing on growth and technology as well as disruption in their companies and industries. In a 2018 survey of U.S.-based CEOs, KPMG¹ found that **84 percent** of responding CEOs expressed confidence about economic conditions and growth prospects for the U.S. economy and 98 percent expressed confidence about the growth prospects for their individual companies. The KPMG study also highlighted the impact of technology-driven disruption, suggesting that many CEOs in the United States “are aggressively pursuing digital disruption” and adding that a large majority of the CEOs surveyed consider their particular companies to be “active disruptors.” A similar global study of CEOs by PwC² found that nearly two-thirds of the CEOs surveyed believe global economic growth will improve, with a majority indicating that they are ‘*very confident*’ about the revenue growth prospects for their own organizations in 2018.



The strong focus on growth, technology and disruption in business today creates a major challenge to internal auditors around the world to keep up with these trends and to ensure that their audit groups continue to be relevant and effective. To this point, keeping pace with their businesses is a clear expectation of internal audit stakeholders, according to the IIA’s 2016 global internal audit stakeholder study³. The good news is that almost **70 percent** of the respondents to TeamMate’s 2018 Insights Survey indicated that their internal audit function had a strategic plan. On the flip side, however, more than 30 percent of our survey respondents are without a strategic plan, a clear disadvantage in a demanding marketplace.

To deal effectively with their dynamic operating environments, internal audit functions need to be much more proactive than reactive. Now is not a time for internal auditors to sit back and rest on their laurels while waiting for the inevitable changes to come to them. The forces of disruption impacting their businesses are likely to threaten internal audit. Given such risks, there is a clear need for solid, comprehensive planning that includes development of an internal audit vision as well as detailed plans for achieving internal audit goals.

In responding to its strategic challenges, an internal audit group needs to address two key questions related to its vision and resources:

- First, the **vision** question: How should internal audit evolve over the next 2-5 years? CAEs need to determine how their functions can best add value to their organizations. Without a clear goal for where it needs to be, internal audit assumes a reactive posture by default, running the risk of falling behind the parent organization and becoming increasingly irrelevant.
- The next logical question deals primarily with **staffing**: What resources do you need to develop or acquire to achieve your vision and key objectives? To address the **capability** issue, you need to assess your current capabilities and determine how they match up with those needed to achieve your vision.

1 "Growing Pains – 2018 U.S. CEO Outlook," KPMG.

2 "The Anxious Optimist in the Corner Office," 21st Annual Global CEO Survey, PwC.

3 "Voice of the Customer: Stakeholders' Messages for Internal Audit," a CBOK [Global Internal Audit Common Body of Knowledge] Stakeholder Report, The Institute of Internal Auditors Research Foundation, 2016.

2018 TeamMate Insights Survey Results

Our 2018 TeamMate Insights Survey sought to obtain comprehensive input from internal audit practitioners on their approaches to strategic planning. In addition to seeking overall, big-picture data, we sought more detailed input on the core internal audit processes and sub-processes included in their plans. We believe such data will provide useful and practical information to practitioners who are either thinking about developing a strategic plan or are in the process of updating the one they have.



As noted above, 70 percent of our 2018 survey respondents have a strategic plan, and 30 percent do

not. Of note, 56 percent of those respondents without a strategic plan at the time surveyed anticipate developing one within the next two years.

Given the perceived benefits of strategic planning, we wanted to find out why organizations would choose to do without one. For respondents who do not have a strategic plan and do not intend to develop one, the most cited reasons for doing without a strategic plan include lack of management support, lack of sufficient planning resources, and the decision to evolve, as needed, without a formal planning process.

Looking at strategic objectives, survey respondents overwhelmingly cited the need to increase the value that the organization receives from internal audit as the overall objective of their strategic planning efforts. Improving the alignment of internal audit with the overall strategic and business objectives of the parent organization was also cited as being highly important.

Real-World Perspective: Leveraging & Aligning with the Organization's Strategic Plan

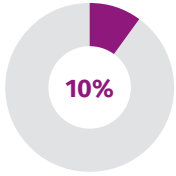
Margaret-Ann Brooks, Director, Audit and Certification Services for The Co-operators Group, a Canadian insurance cooperative based in Guelph, Ontario, Canada, along with other members of the Audit Management team had been taking an informal approach to strategic planning for their 19-person internal audit group. That changed in 2018 when the department received an external Quality Assurance Review (QAR) suggesting that it formalize its strategic planning process.

In addressing this suggestion, Ms. Brooks and the Audit Management team were able to leverage the work of the company's strategic planning function, which produces and updates comprehensive strategic plans for the organization on a four-year cycle. As luck would have it, the organization in 2018 was in the process of developing its next four-year plan. Through discussions with the corporate strategic planning group, Audit Management was able to gain a better understanding of the strategic planning process and where the company was heading, an interaction she found to be highly beneficial.

Through meetings, researching the process of strategic planning, and asking themselves, "What do we need to do to continue adding value to the organization?", Ms. Brooks and the Audit Management team concluded that internal audit needed to develop a four-year strategic plan that would closely align with the company's new four-year plan.

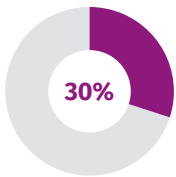
As a result, internal audit's new strategic plan corresponds closely with the focus of the organization's updated strategic plan. The new internal audit plan looks closely at the risks in new and emerging areas of business as well as automation and changing technology and highlights the need for having the right people, technology and knowledge on the audit team to address these risks. For several years now, each internal audit report has included an observation snapshot aligning all audit findings with the strategic focus areas of the company. With the creation of an audit plan aligned closely with the new corporate strategic plan, and clearly reporting to management the link between audit findings and management's focus areas, Ms. Brooks and the audit team are able to ensure that they continue to remain relevant to management and the strategic direction of the organization.

Internal audit's biggest challenge in revamping its planning approach? "We could not 'sit still' with the same skill sets and technology that had served us in the past," Ms. Brooks states. "We need to help existing staff adapt to the more demanding environment, especially when it comes to technology, and we need to find new people, as needed, so that we have the right mix of skills and capabilities to serve the company effectively going forward."

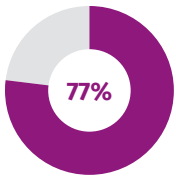


On the plus side, this feedback correlates closely with the findings of The IIA’s 2016 global internal audit stakeholder study, which indicated that stakeholders stressed the need for internal audit to understand and address the business risks of the organization. On a more disappointing note, however, **only 10 percent** of TeamMate’s 2018 survey respondents indicated that aligning with stakeholder expectations was their overall strategic planning objective.

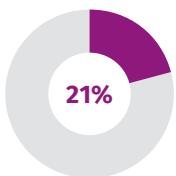
For TeamMate’s 2018 survey respondents with strategic plans, the most common planning timeframe is between two and five years, with only a small number of organizations planning beyond five years.



When asked about stakeholder input to the planning process, **nearly 30 percent** of respondents indicated that their audit committees and executive management had either little direct planning input or only validated the final plan. This finding raises the issue of whether the planning activities of these respondents are sufficiently aligned with the expectations of their key stakeholders.



We also looked at outside or third-party support for plan development. It was somewhat surprising that **77 percent** of those survey respondents with plans, more than three in four, indicated that they did not use any outside or third-party support for plan input or review. Looking at respondents who did receive third party or outside support in plan development, the most common source of such assistance was either a co-sourcing provider or a private consultant.



In executing their strategic plans, most of TeamMate’s 2018 Insights Survey respondents track and report their progress periodically to their audit committees. Slightly more than a fifth (**21 percent**) have specific key performance indicators related to their strategic planning process that they report on and track. Plan executions are primarily conducted on basic office software.

Finally, when asked to identify the single biggest factor needed to execute their plans successfully, respondents focused clearly on human capital. Given the “war on talent” affecting many organizations today, and the need for new internal audit skills, it is not surprising that the top two responses to that question related to staffing. The third most cited factor was executive management support.

Once again, these survey results point to the importance of good stakeholder relationships.

Key Success Factors: Top 3 Survey Responses

- Finding the right human resources and skills
- Ability to train existing staff and help employees develop new skills
- Executive management support

Of note, having adequate financial support for strategic planning activities was rarely cited as a critical success factor, hopefully reflecting strong financial support for such initiatives.

Developing the Strategic Vision

The strategic planning process for internal audit begins with the development of the strategic vision — a picture of what the internal audit function would look like at the end of its two- to five-year strategic planning horizon.

The first step in this process is to understand, articulate and validate stakeholder expectations. There are three key steps in this process:

- 1 Meet with key stakeholders from both the audit committee and executive management
- 2 Share your ideas about potential areas of focus for internal audit
- 3 Ask your key stakeholders to describe their expectations of internal audit and where they see the internal audit function adding value in coming years

Once you have gained your desired stakeholder input, develop a composite set of stakeholder expectations and run them by your stakeholders to ensure you are on the same page (the validation process). Point out any potential conflicts identified during the interview process.

After completing your analysis of stakeholder expectations, you next need to articulate a strategic vision of where internal audit should be over the next two to five years. After doing so, CAEs and their direct reports should assess whether internal audit is in full conformity with The IIA Standards and with any applicable local regulatory requirements for internal audit. This information should be available upon completion of the internal and external quality review process. Any deficiencies should be identified, noted and included in the strategic planning effort.

Once the new strategic vision for internal audit has been set, and the results of any external or regulatory reviews are in hand, the CAE and the internal audit leadership team are in position to consider how the core process of internal audit must change or evolve to achieve the vision and full conformance with The IIA Standards. To add structure to the analysis, we have created the following high-level summary as a visual tool designed for key stakeholders and the internal audit staff:

Core Process	Current State Description	Future State Description	Supports Expectations or Standards	Critical Path / Requirements
Human Capital				
Risk Assessment				
Working Practices	Limited CAAT and data mining utilized on some audits	Data mining deployed as tool in all audits		<ul style="list-style-type: none"> • Acquire needed data skills • Funding for technology
Partnering				
Knowledge Management				
Technology				
Communications Reporting				
Performance Measurement				

Optimal opportunity to articulate and communicate the expected future state

Strategic Planning for Internal Audit

The TeamMate Approach to Strategic Planning, detailed below and supported by 2018 TeamMate Insights Survey results and our experience, focuses clearly on the two core questions — how to add value to the organization and how to operate in a highly effective manner. Our approach also provides a useful framework for improving the effectiveness of core internal audit processes.

For some internal auditors, setting goals and objectives involves a quest to be a “World Class” internal audit function or, at a minimum, one that operates at a “best practice” level. The problem with these terms is twofold: First, the terms are generic, without any real measurement criteria; second, the terms do not focus sufficiently on individual organizations, including how internal audit plans to add value to a specific organization.

Here’s a better approach for establishing a clear objective: **Focus on two interrelated topics — first, how to add value to the organization, and second, how to operate in a highly effective manner.** These are the real core questions to address.

Seeking to add value to key stakeholders and parent organizations has been a long-standing quest for many internal auditors, including a significant number of respondents to TeamMate’s 2018 global survey. When asked to identify their overall strategic planning objective, most respondents whose organizations have a strategic plan pointed to increasing the value of internal audit.

When discussing value and the internal audit function, however, it helps to describe the term “value” from your perspective. Ultimately, the key stakeholders of internal audit, including the audit committee and executive management, are the people who decide whether internal audit is adding value to their organization. So it is essential to take their perceptions into account.

PERCEPTIONS MATTER: The Value of an Internal Audit Activity

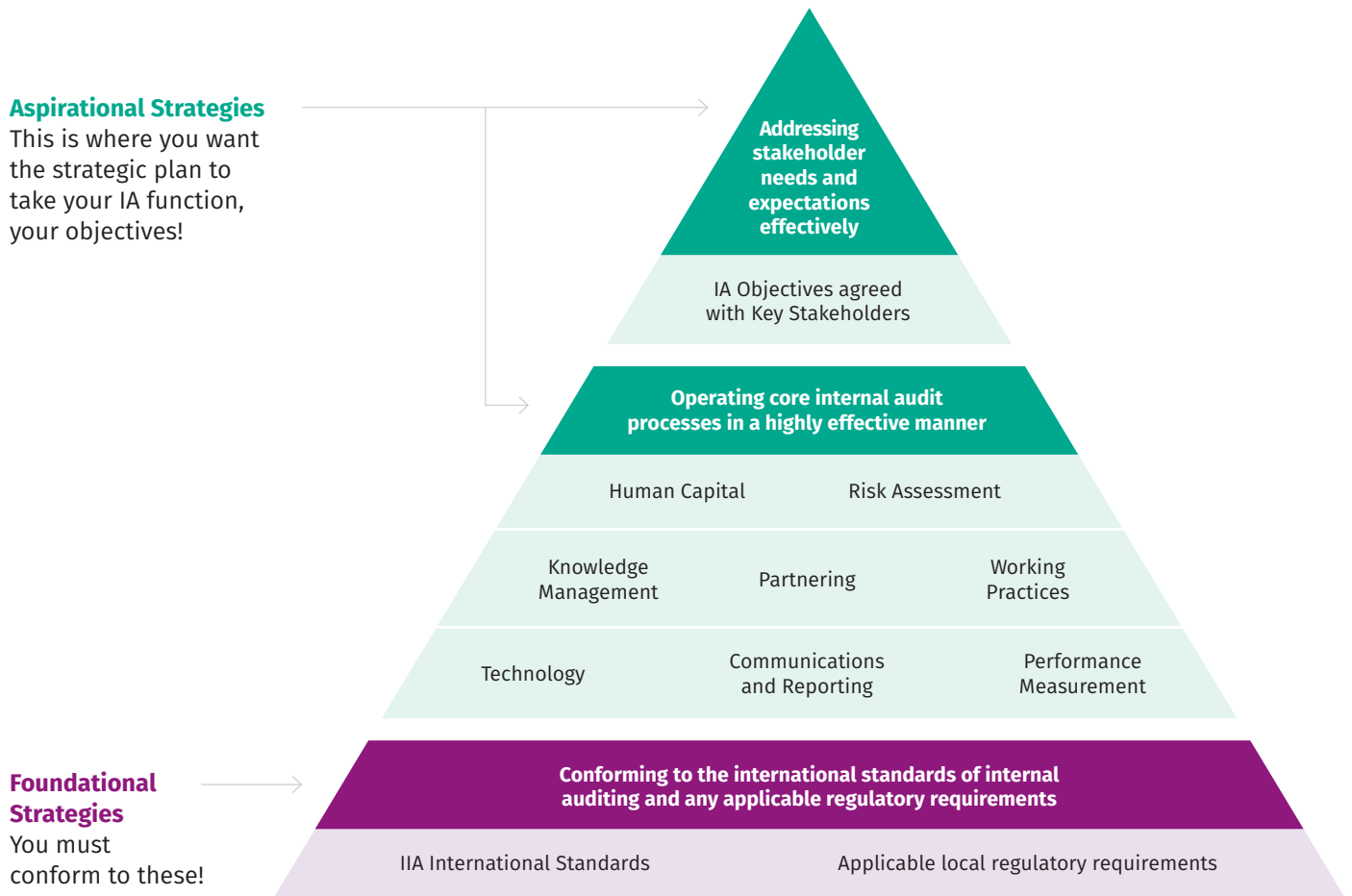
“In the world of internal auditing, perceptions matter. The value of an internal audit activity is directly related to its perceived contributions to the organization, with such contributions being a proxy for value provided.”

“Imperatives for Change: The IIA’s Global Internal Audit Survey in Action,” Report V, a component of the CBOK [Common Body of Knowledge] Study, The Institute of Internal Auditors Research Foundation, 2011.

In addition, CAEs who seek to operate in a highly effective manner need to consider two other dimensions: first, having core internal audit operating processes that are highly effective in accomplishing their tasks and are operating at a highly effective level, and second, being effective in conforming to The IIA Standards and any additional local regulatory internal audit requirements.

Keep in mind, however, that the lack of severe problems, taken alone, does not constitute an effective operation. It’s not enough to merely be “effective” in your operation; instead, you need to strive to be “highly effective,” recognizing that effectiveness is difficult to define, determine or measure.

TeamMate's Internal Audit Effectiveness Model



For an internal audit function to be adding value and highly effective, it needs to develop and implement a mix of strategies to address three interrelated dimensions providing a useful framework for a comprehensive strategic plan:

- Addressing stakeholder needs and expectations effectively
- Operating core internal audit processes in a highly effective manner
- Conforming to The IIA Standards and any applicable regulatory requirements

As TeamMate's Internal Audit Effectiveness Model indicates, strategies to align with stakeholder value expectations and those to enhance core internal audit

processes are aspirational. Such strategies are designed to help you achieve target levels of performance. In addition, these strategies are intended to identify internal audit activities that key stakeholders would perceive to be value-added must-do items that the internal audit function must perform to deliver on stakeholder expectations.

Of note, aspirational strategies are built on a foundation of conformance with The IIA Standards, as well as any local regulatory requirements for internal auditing that might be applicable. Keep in mind that such conformance is a necessity as opposed to a nice-to-have factor; these planning activities are foundational, not aspirational; they are simply not sufficient in and of themselves.

I. Aligning with Stakeholder Expectations

Much has been written about the importance of internal audit knowing and meeting the value expectations of its key stakeholders, principally the CEO and audit committee chair. For example, the need to achieve strong stakeholder alignment was emphasized in the IIA's 2016 global internal audit stakeholder study, which noted:

“In most organizations, not all stakeholders see things the same way or want the same value from internal audit. This reality creates a significant challenge for CAEs in terms of building consensus. The CAE bears the brunt of the responsibility of addressing this challenge...”

As feedback from the global internal audit community indicates, stakeholder expectations can differ significantly from one organization to another and often change in response to a wide range of internal and external factors including changes in the makeup of either executive management or the audit committee.

While stakeholder expectations vary, the IIA's global stakeholder study also identified a number of expectations common to many organizations:

- Stakeholders expect high quality assurance work
- It is critical to identify key, strategic risks
- Business knowledge is expected

Given such feedback, it is imperative for internal audit to demonstrate how it aligns with and supports the organization's overall business objectives.

Updated COSO ERM Guidance

Focusing on business objectives and associated risks is conceptually similar to the approach contained in the 2017 COSO release, “Enterprise Risk Management: Integrating with Strategy and Performance.” When considering risk management and other components of strategic planning, CAEs might find it helpful to review that COSO release and consider how the concepts and practices reflected in the release can be incorporated into their strategic plans, particularly in the areas of risk assessment and reviewing and enhancing risk management practices.

See www.coso.org for information on the 2017 ERM Framework Update.

A key issue for every organization is to make expectations explicit and written as opposed to implicit and assumed. To do so, talk to your stakeholders about their explicit expectations, capture what you've learned in writing, and then validate your working drafts of their expectations with the stakeholders themselves. This interactive process can provide CAEs with the opportunity to strengthen key relationships and update stakeholders about internal audit activities.

Of critical importance, the topic of “value” needs to be central to these discussions. CAEs need to determine how their stakeholders perceive value from internal audit and whether there is agreement among internal audit and its key stakeholders as to how internal audit can best add value. Further, given that perceptions are the stakeholders' proxy for value, according to The IIA's 2010 study of the global internal audit community⁴, these perceptions need to be surfaced and made explicit.

4 “Imperatives for Change: The IIA's Global Internal Audit Survey in Action,” Report V, a component of the CBOK [Common Body of Knowledge] Study, The Institute of Internal Auditors Research Foundation, 2011.

Real-World Perspective: Staying Relevant by Seeking and Providing Insights

In 2018, Peter Krusifix took over as Vice President Internal Audit at Wolters Kluwer, a rapidly changing global information services company based in the Netherlands that is heavily focused on deep domain knowledge and technology. As the chief internal audit executive for Wolters Kluwer, Peter needed to develop a vision and strategic plan for internal audit that would spell out what the team planned to do to deliver value to the organization. “Unless you increase your relevance, it will diminish,” he states.

Soon after assuming his role, Peter launched strategic initiatives in the areas of talent, technology, and quality – traditional areas of focus for internal audit. But he also saw much to be gained from the exchange of strategic perspectives with top managers throughout the company worldwide. In discussions with key business leaders and audit committee stakeholders, for instance, Peter saw the opportunity to focus on “insightfulness” as a key theme in efforts to enhance

stakeholder perceptions of internal audit. To that end, he and his staff developed a plan to make the two-way communication of useful insights central to their mission to strengthen the value conveyed by the internal audit function.

In pursuing their shared-insights initiative, Peter and his leadership team are stressing the need for members of the internal audit team to have different and enhanced levels of discussion with company leaders and management that include more in-depth questioning on business activities and corresponding risks. By building on their bases of knowledge in this manner, the internal audit team will be able to share insights about practices in other parts of the organization that appear to be working well as well as provide informed insights about specific risks. Feedback to date from key stakeholders suggests that Peter and his team are on the right track and delivering value to the company.

Stakeholder expectations, once identified and described, also provide the lens by which internal audit can assess the value and fit of core process alternatives and align processes in support of specific stakeholder expectations. This is an effective way of determining which possible “best practices” or other process alternatives would work effectively for the internal audit function and help internal audit achieve its objectives.

II. Internal Audit Core Processes

For internal audit’s core processes to work well, they must effectively address stakeholder needs and conformance with The IIA Standards as well as rapidly changing operational environments. It is time to move beyond “tinkering” to consider innovative ways to rethink and revamp core approaches to audit process improvement, potentially supported by new enabling technologies.

Real-World Perspective: Innovation as a Strategic Initiative

Carl Bleecher, Senior Vice President and Chief Audit Executive at Aon plc was faced with a constantly changing environment as Aon restructured its organization and operations. As Aon evolved, the company adopted a number of strategic initiatives including singling out innovation as a key strategic priority for the company as a whole.

In exploring how internal audit would need to change to keep pace with the company’s strategic direction, Bleecher concluded that his department needed to “move or die” and step up its change-management efforts. Step One: establish a clear focus on innovation as a key strategic priority within internal audit. His intent was to address inherent resistance to change by “managing innovation” through his staff and management team.

The initial thrust of Bleecher’s innovation initiative was to significantly expand the use of data mining and analytics. “We wanted to demonstrate how data analytics and other innovative tools could help us move from theoretical concepts to practical implementations,” he states. “We focused on building and deploying tools, some developed with new members of our staff with strong data skills and experiences, so we could have an immediate impact on the audit process.”

In their pursuits of greater innovation, Bleecher urged members of his internal audit staff to seek “the art of the possible,” to avoid being deterred by failure, and to identify other innovative initiatives being undertaken across the corporation that might be leveraged by internal audit.

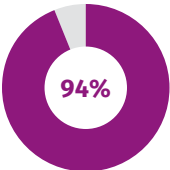
In summary, Bleecher believes that the strong focus on innovation within Aon as a whole and internal audit in particular has resulted in significant improvements in the audit process and internal audit culture as well as the company overall.

To add structure to the core-process evaluation exercise, the TeamMate strategic planning model includes eight core internal audit processes:

Core Internal Audit Processes	
Risk Assessment	Communications & Reporting
Human Capital	Performance Measurement
Working Practices	Technology
Knowledge Management	Partnering

In the 2018 TeamMate Insights Survey, we sought respondent input on these core processes and related sub-processes to provide useful feedback and comparative data. We also looked at what processes and sub-processes were most often included in the strategic planning activities of our respondents. What we learned is summarized below on a process-by-process basis:

Risk Assessment



Risk assessment was the most frequently included core process in the strategic plans of our survey respondents, with **94 percent** including enhancements to their risk assessment process in their planning efforts. A comprehensive and ongoing assessment methodology was cited often as an area of focus, with strategic and emerging risks being the most frequently cited sub-processes.

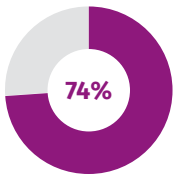
This focus on strategic risks is very consistent with feedback from stakeholders received during The IIA’s 2015 global stakeholder study, where ensuring that audit work is aligned with the strategic risks of the organization was viewed as a best practice.

Communications & Reporting

The next most frequently cited core process was communications and reporting. Two areas of focus stand out in this process:

- First, respondents are seeking to update and enhance their audit reporting processes. To this point, almost half of our respondents reported an increase in their use of visual reporting tools as part of their overall enhancements to their communications and reporting activities.
- Second, respondents are seeking to enhance their reporting to audit committees. As part of this focus, we note that more than one-third of respondents indicated that their reporting now includes overall trends or organization-wide results.

Human Capital



To no surprise, nearly 90 percent of TeamMate’s 2018 survey respondents included a focus on their human capital processes in their strategic plans, with human resources, staff skills and training considered the most critical success factors. Looking at sub-processes, training and development, cited by **74 percent** of respondents, received the most attention, followed by conducting and maintaining a skills inventory at 61 percent, scheduling of assignments at 56 percent, having an appropriate organizational structure at 52 percent, and conducting recruiting and retention activities at 46 percent. Surprisingly, only 21 percent of respondents included initiatives focused at formal or informal rotation programs among their key sub-processes; such programs are used to acquire business knowledge from individuals rotating through internal audit.

A Strategic Partnership: Internal Audit and Human Resources

The chief audit executive for a major global organization was struggling with succession planning and talent development for his staff, many of whom are highly experienced. To address these issues on a long-term basis, he teamed with his company’s Human Resources department in an HR program designed to identify high-potential people across the organization. He was also seeking to find ways to make his auditors more effective, especially when it comes to enhancing the levels of trust and confidence they enjoy with the business leaders they serve. Working closely with HR, the CAE was able to leverage a number of tools and practices discovered during the company-wide search for talent. In addition, he was able to identify high-potential staff working in other parts of the company who could benefit from a rotation through internal audit.

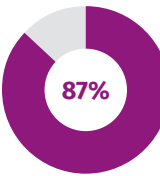
Performance Measurement



Performance measurement practices were included in the strategic plans of **89 percent** of our 2018 survey respondents. Two sub-processes, in particular, stand out in this area: first, identifying and developing key performance indicators for their internal audit functions, and second, implementing formal processes to obtain stakeholder feedback.

A clear trend in the performance measurement arena involves the use of balanced scorecards as a key methodology for reporting on strategic planning progress and audit planning overall. TeamMate strongly endorses the use of balanced scorecards in strategic planning and we include a basic framework for the use of a balanced scorecard for reporting in our discussion below.

Working Practices



Enhancing working practices is a key focus in the strategic planning activities of **87 percent** of our respondents. The most frequently included sub-process was implementing or expanding the use of data mining/analytics, cited by an overwhelming majority of respondents.

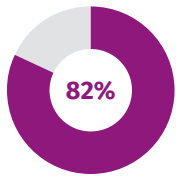
These findings are consistent with trends noted by both TeamMate and the IIA in recent years, with data mining increasingly viewed as a core competence by many internal audit functions.

For more information on data mining and data analytics, see [Enhancing Audit Technology Effectiveness: Key Insights from TeamMate’s 2012 Global Technology Survey](#).

Technology

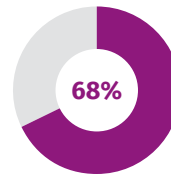
As noted in the Working Practices discussion above, our respondents are either implementing or enhancing their use of data mining and data analytics. Reinforcing this trend is the fact that acquiring and implementing data-related tools was the most frequently cited sub-process in the technology aspect of respondents’ strategic-planning activities, followed by deploying technology in support of audit execution. Respondents are also developing and deploying on-line training, with half of our respondents including such initiatives in their strategic plans.

Knowledge Management



In recent years, knowledge management has become a much-needed core process for internal audit. So it's no surprise that **82 percent** of our 2018 survey respondents included knowledge management in their strategic planning activities, with a clear focus on developing or expanding an internal audit knowledge repository and on enhancing and formalizing knowledge management processes and practices. Providing internal audit staff with internal and/or external linkages to knowledge management resources and data was also cited as an important strategic planning element by more than half of respondents.

Partnering



Partnering with related risk-and-control functions and business units is a final area of focus for internal audit strategic planning activities, in keeping with a primary finding of the IIA's 2015 global stakeholder study⁵, which emphasized the importance of this focus. In like manner, **68 percent** of our 2018 TeamMate Insights survey respondents included activities related to partnering in their strategic plans. Looking at partnership options, partnering with business units was the clear winner, with respondents citing business units slightly more often than partnering with related risk-and-control units. Sharing common technology and data was also cited as important by about a third of respondents, a trend likely to increase in importance.

For more information on partnering, see [Coordination among the Lines of Defense: Maximizing your Interactions](#), a TeamMate Audit Technology Insights report.

III. Building the Foundation

The bedrock of an effective internal audit function is full conformity with The IIA Standards and local regulatory requirements. That conformity is foundational, a necessity, and a key expectation from an informed group of primary stakeholders. You cannot claim to be a highly effective internal audit function if you fail to conform to basic professional standards or applicable regulatory requirements. Executive management and the audit committee expect more!

To achieve highly effective status, an internal audit function is required by The IIA Standards to conduct both internal and external reviews of its conformance with The Standards and other relevant regulations and to include such reviews in its strategic plan. In addition, internal audit needs to conduct periodic internal reviews of its conformance with any local regulatory agencies, such as banking regulators for individual countries,

that might be overseeing its activities. These reviews can provide valuable information and feedback about internal audit activities and practices that need to be implemented or enhanced to achieve regulatory and Standards conformance.

Of note, Mike Joyce, incoming chair of The Institute of Internal Auditors, strongly supports full conformance with The IIA Standards. In his role as VP and Chief Auditor for the Blue Cross Blue Shield Association, a national federation of 36 companies providing health insurance to one in three Americans, Joyce has built full conformity with The IIA Standards into his internal audit charter. He also stresses the importance of professional internal audit certification to members of his staff, who are required to have either CIA or CISA certifications to be considered for higher-level positions within the department.

5 "Voice of the Customer: Stakeholders' Messages for Internal Audit," a CBOK [Global Internal Audit Common Body of Knowledge] Stakeholder Report, The Institute of Internal Auditors Research Foundation, 2016.

Developing the Strategic Plan: Supporting Tools and Methodologies

To support the strategic planning efforts of CAEs, we present the following framework and methodology as a starting point organizations can tailor to their specific needs. The end goal is to lay the groundwork to develop highly effective internal audit functions.

In their strategic planning activities, CAEs need to consider the relationship between core internal audit processes and the expectations of key stakeholders. This framework, in the form of a **Process Assessment Worksheet**, provides a structure to facilitate such considerations.

	Stakeholder Expectations				Standards	Regs	Process Assessment
	Providing Assurance	Expect #2	Expect #3	Expect #4	IIA Standards		
Human Capital							
Risk Assessment							
Working Practices							
Partnering							
Knowledge Management							
Technology	Use the worksheet to ensure and communicate how enhancements to core processes will support and enable meeting stakeholders' expectations.						
Communications Reporting							
Performance Measurement							

The straightforward structure of the framework enables CAEs to assess how each internal audit process aligns with or supports each expectation and indicates whatever conformance is needed to address The IIA Standards. The value of the assessment stems from the thoughtful analysis required to evaluate each core process and how the process being examined might be altered to support achievement of each expectation or conformance activity.

Another visual tool, the **Core Internal Audit Process Summary** detailed below, enables internal auditors to consider all points related to each core process to facilitate development of tailored process strategies and to roll out tactical plans. Other planning tools, such as the TeamMate thought leadership report entitled *Developing an Effective Internal Audit Technology Strategy*, are available on the TeamMate website.

	Human Capital	Risk Assessment	Working Practices	Partnering
Examples ▶	Develop/add staff with data mining skills	Add a strategic risk component	Eliminate written reports	Develop working group of other GRC units
	Knowledge Management	Technology	Communications Reporting	Performance Measurement
Examples ▶	Develop an internal audit knowledge repository	Obtain and utilize visual reporting tool on all audit reports	Report quarterly on progress of strategic plan to executive management and audit committee	Develop balanced scorecard for progress on strategic plan

Under each core process you would list the specific activities that would be developed and deployed as part of your strategic plan. This summary could be used to develop a tactical plan for each core process.

Developing Strategic and Tactical Plans

The next step in the strategic planning process is to develop the actual strategic plan along with supporting tactical plans. The overall strategic plan would cover the entire 2- to 5-year planning horizon with activities spread across the planning horizon by year. The tactical plan would include the planned objectives for the year along

with the specific tasks and projects to be implemented during the year as laid out in the strategic plan. Developing the strategic plan also provides the CAE with opportunities to gain staff support for and participation in the planning process.

Real-World Perspective: Giving Millennials a Voice in Strategic Planning

Joe Danahy, Chief Audit Executive of Health Care Service Corporation, a major U.S.-based health insurance provider, believes in regular, ongoing input from his staff, which includes a number of millennials, generally defined as people aged 18 to 35. At staff meetings, questions from staffers in this age group tend to follow a similar theme: What can we do to improve our department and ourselves going forward? Joe also sensed that millennials, in particular, were seeking greater input and transparency into the strategic direction of the department. As he considered how to respond to such questions, Danahy laid the groundwork to increase millennial participation in departmental planning.

At Health Care Service Corp., internal audit maintains a five-year, rolling strategic plan that is updated annually. To expand staff input on the strategic direction of the department, Danahy created three separate teams, each focusing on either people, process, or performance, the three critical areas of

the department’s strategic plan. Each team is staffed by volunteers and headed by a member of internal audit management. Danahy describes the purpose of the teams as twofold: first, to surface ideas and strategies focused on what they need to do as a department, such as increasing staff involvement in the planning process, and second, to help members of the department improve their people skills and performance. As the teams develop their ideas and proposals, they meet with Danahy and his management team to decide what to contribute to the strategic planning process.

“Staff feedback indicates that millennials clearly appreciate the opportunity to provide substantive input into the planning process and the enhanced transparency that goes along with their involvement,” says Danahy, who adds that the steps being taken within the department to increase staff participation in planning and related activities have led to improved scores in third-party assessments of employee satisfaction.

Internal Audit Planning & Execution Process

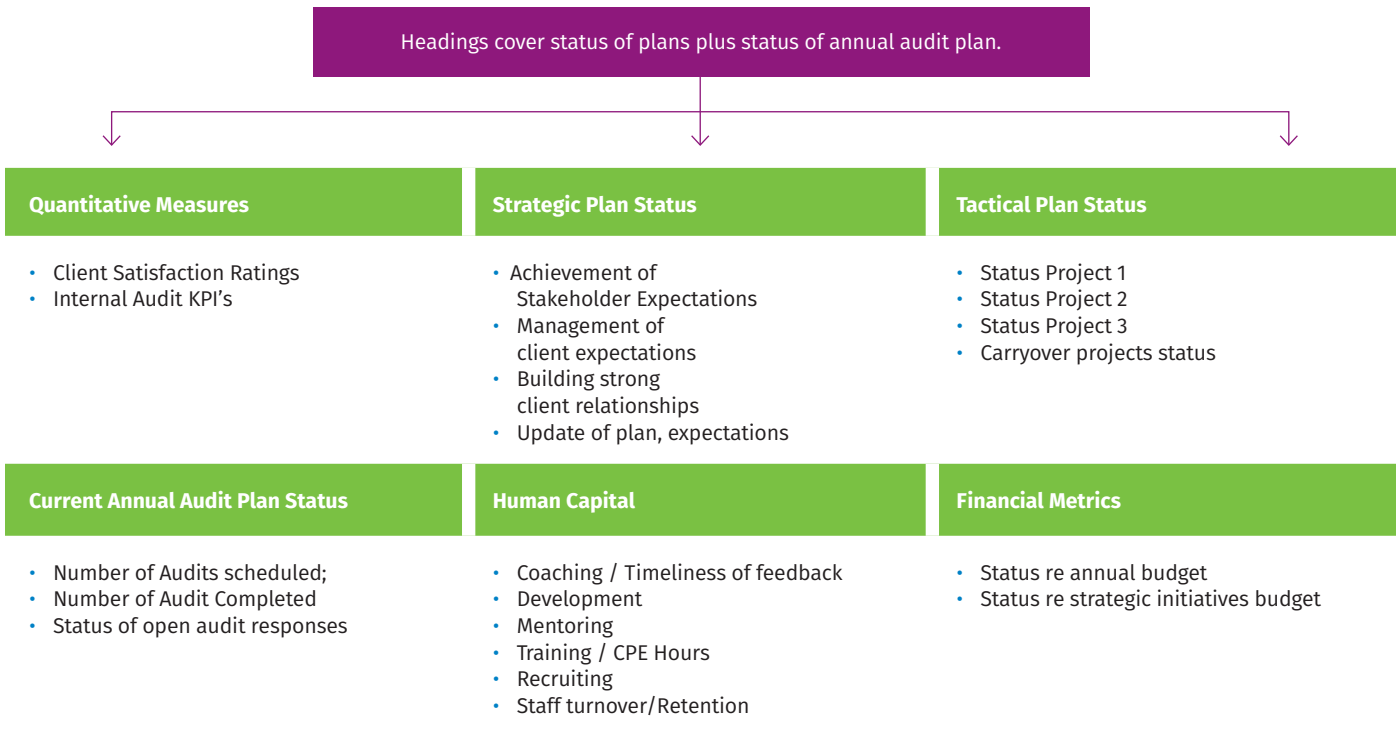


Implementing Plan Monitoring & Reporting

While the process of developing a good strategic plan can be a major effort in and of itself, the real value and primary challenge of any strategic planning effort is in plan execution. To optimize this all-important phase of planning, you first need to break down and prioritize your plan components. Then you need to prepare a tactical plan detailing the specific activities to be undertaken during the coming year and laying out target dates for plan updates.

As noted earlier in this paper, nearly a fifth of our 2018 survey respondents are using balanced scorecards to report on their progress in developing both strategic and audit plans. We applaud such efforts, believing balanced scorecards can be a highly effective tool to track performance and report progress in plan execution. Keep in mind, however, that balanced scorecards need to be tailored to specific situations and need to align with and report on specific plan components.

Example: Internal Audit Planning Balanced Scoreboard



Effective Planning Drives Value Creation

In today's business environment — with so many organizations focusing on growth, deploying new technologies, and facing the twin challenges of disruptive change and emerging risks — it is vital for internal audit groups to re-assess their needs and capabilities and plan accordingly.

For chief audit executives, today's marketplace offers ample opportunities for internal audit functions to demonstrate

how they can support the organizations they serve. To capitalize on these opportunities, need to develop carefully structured planning processes that enable internal audit to develop highly effective strategic plans that address stakeholder needs and expectations. The survey data, insights and suggestions in this paper are intended to support such planning efforts and strengthen the ability of internal audit to enhance functional value.

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