# *"Repositioning Internal Auditing for Excellence"*

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# Contexts, Risk and Control



CUSTOMER/CLIENT VALUE

Competitors          Product/Service Markets

DIRECTION

Objectives   Strategies

Contractual   RISK EXPOSURE   Communal

Control

Processes   Governanace

Capital Markets   Capabilities   Administrative   Management   Momentum

SHAREHOLDER/ STAKEHOLDER VALUE   RESOURCING   CHANGE   TIME

Competitors   Precedent

CHANGING INSTITUTIONAL CONTEXTS
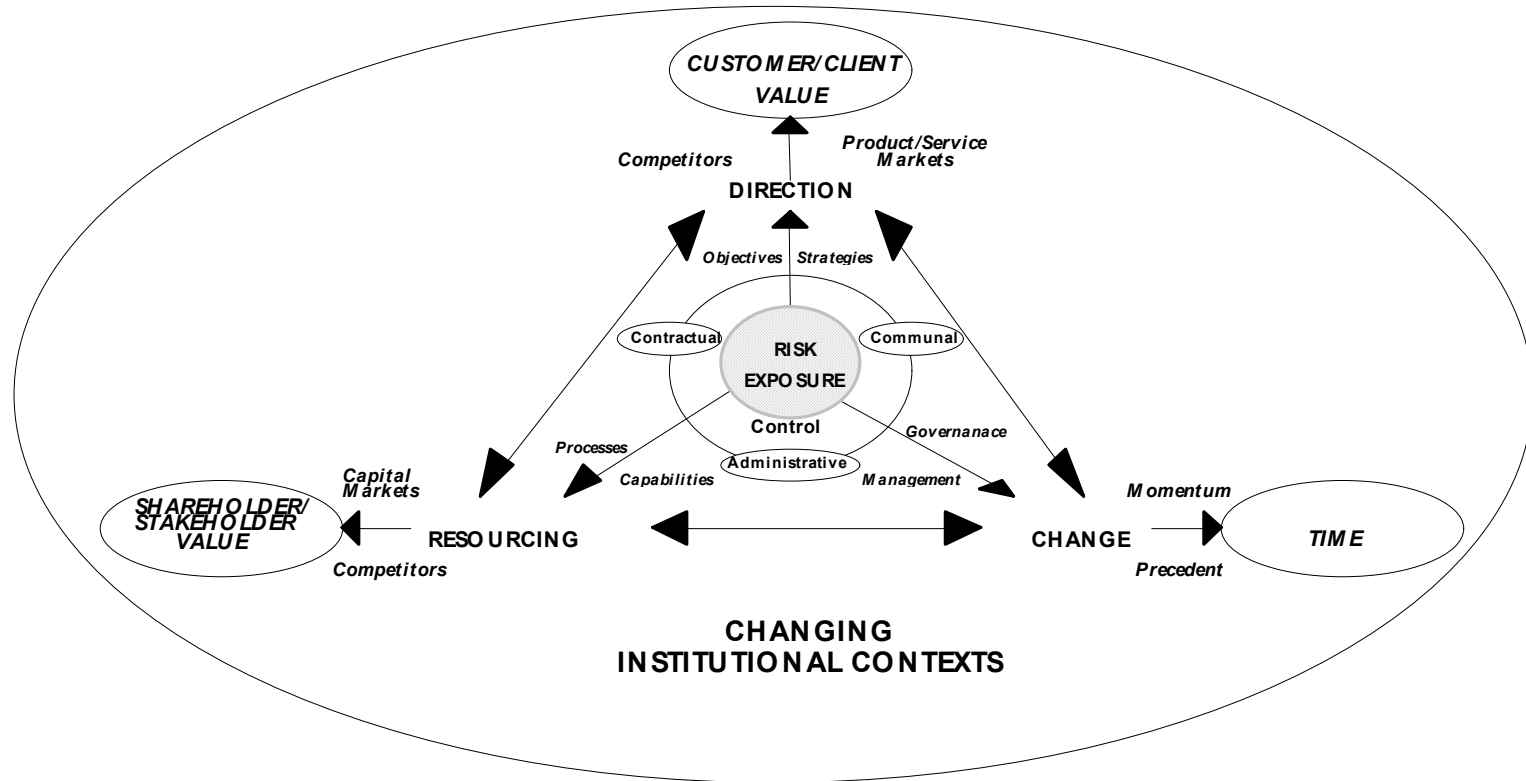
# A Functional Definition of Internal Auditing

*Internal auditing is a process by which an organization gains assurance that the risk exposures it faces are understood and managed appropriately in dynamically changing contexts.*
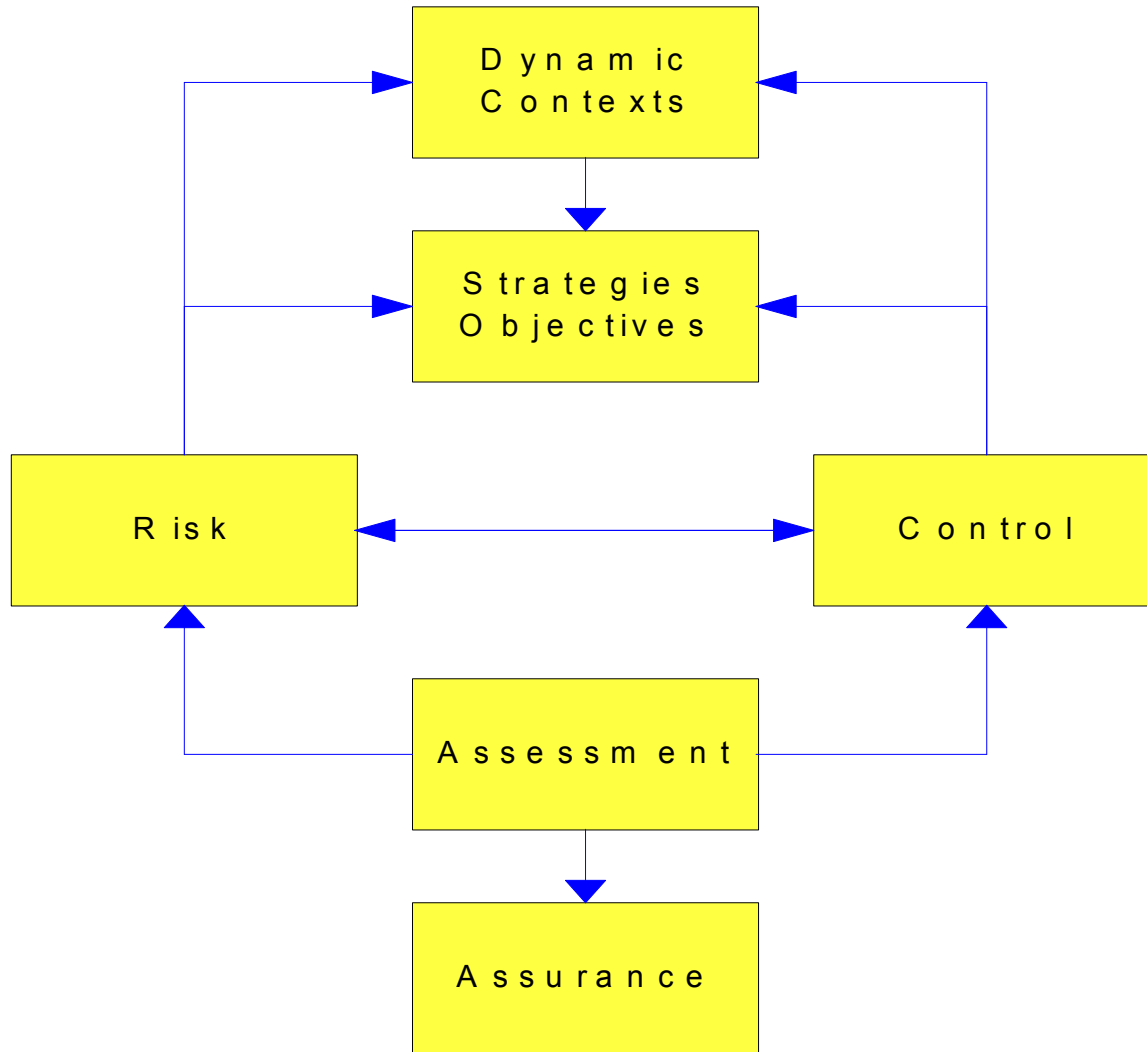
# Internal Audit Focus, Process and *Outcomes*

| INTERNAL AUDIT PROCESS and *OUTCOMES* | INTERNAL AUDIT FOCUS | | | |
|---|---|---|---|---|
| | **Dynamic Contexts** | **'Values'** | **Risk** | **Control** |
| Developing *Understanding*<br><br>Contributing to *Improvement*<br><br>Providing *Assurance* | | | | |
| Managing the Function | | | | |

# CFIA ASSESSMENT MODEL

# Managing the Dynamic Contexts of the Internal Audit Function

TASK 6.2

*Proactively negotiate and/or construct the contexts within which internal auditing work will be conducted.*

# Managing the Dynamic Contexts of the Internal Audit Function

6.2.1 Determine the contextual conditions

6.2.2 Identify strategies to achieve opportunities

6.2.3 Monitor contexts for windows of opportunity and avenues for action

6.2.4 Move proactively in negotiating and constructing desired contextual settings

# *Repositioning Internal Auditing*
## Major Issues to Address

1. Negotiating the internal auditing role
2. Improving corporate performance
3. Customer satisfaction drivers
4. Resourcing, outsourcing and  competency
5. Strategic alliances with other functions

# *Repositioning Internal Auditing*
## Major Issues to Address

6.  Business Risk Management

7.  Risk, Quality, Control, CSA, Internal Auditing frameworks

8.  Creating an Accountability environment

9.  What to audit - priorities, subjects, issues

10. Designing the services needed

# What is **Repositioning?**

- Moving from where you are, to where you want/need to be;

- Being a different person/function;

- Changing the way you anticipate/interact with your "conditions and circumstances"

- Taking action, when the opportunities arise;

- Being prepared for the opportunities to arise;

- Recognising opportunities.

# Taking action to get where you want to be

- Deciding where you want to be, where you are, and how the gap is "a problem";
- **Why** this problem or gap exists:
  - the underlying causes;
- All the things you could do to remove the cause;
- Obstacles others have to remove;
- What you are doing/will do.

# Repositioning Actions

| |
|---|
| Objective |
| Current Situation |
| Gap/Issue/Problem |
| Underlying Causes (Why? Why?) |
| Options for Improvement |
| Selected Actions |

# 1. Negotiate the Internal Auditing Role, Plan, Project & Results

- Why negotiate?
- What is the role?
- When to contribute the role
- The resources needed for this role
- Negotiating techniques
- The time scale for repositioning

# Consider the Case Study

NEGOTIATING the IA ROLE

- What is the current position?

- What problems or issues arise?

- Why caused this situation to exist?

- How can the causes be overcome?

- What action should be taken?

# 2. Improving Corporate Performance

- Improving control or improving performance?

- Valuing the contribution

- Finding the key areas to improve

- Before and after measurement

# Consider the Case Study

IMPROVING ORGANISATION PERFORMANCE

- What is IA's current focus?

- What problems or issues arise?

- Why caused this situation to exist?

- How can the causes be overcome?

- What action should be taken?

# 3.  Customer Satisfaction Drivers

- How to find the drivers – what are they? (Quality, Substance, Suitability)

- Survey techniques;

- Turning satisfaction drivers into satisfying services

- Training for satisfaction (Refer to the Value Proposition)

# 4. Resourcing, Outsourcing, Competencies

- Determining the organisation's needs of the internal auditing function;

- Determining the function's needs of internal auditors

- Business knowledge – where do you get it?

- Sourcing – balancing in/out/co/re-sourcing

# Consider the Case Study

RESOURCING the IA FUNCTION

- What is IA's current strategy?

- What problems or issues arise?

- Why caused this situation to exist?

- How can the causes be overcome?

- What action should be taken?

# 5. Strategic Alliances With Other Functions

- Which other (assurance) functions? What specialties?

- What form of alliance?

- What is in it for you? For them? For the organisation?

- What strategy?

# 6.  Business Risk Management

- Dynamic contexts are the source of risk;
- Defining risk sources, consequences, effects, @ risks;
- Control in response to risk;
- Risk in relation to Value
- Risk profiling the organisation
- Risk-based internal auditing
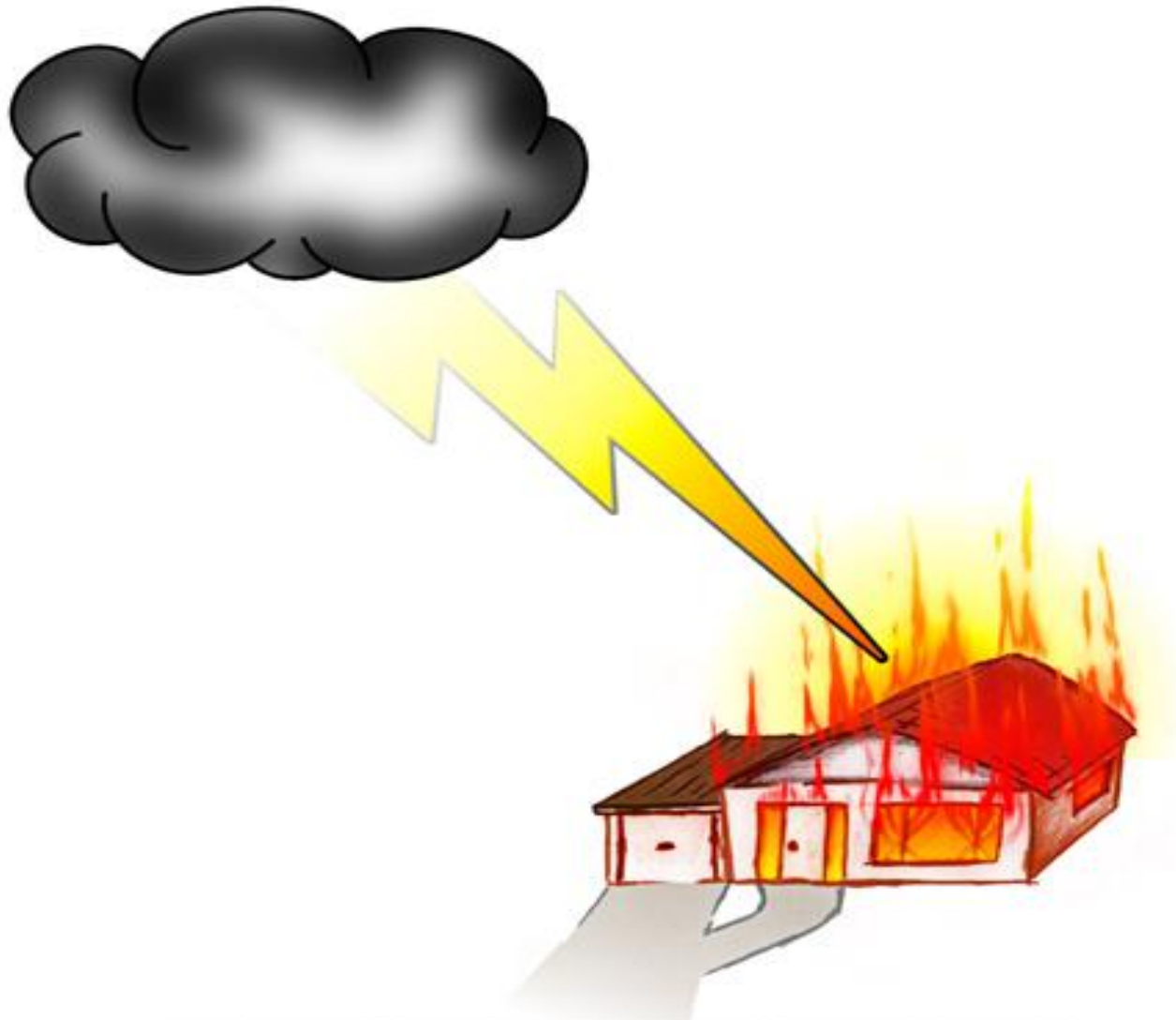
**THE RISK SCENARIO**

# The Risk and Control Scenario



Source

Cause

Likelihood

Consequence

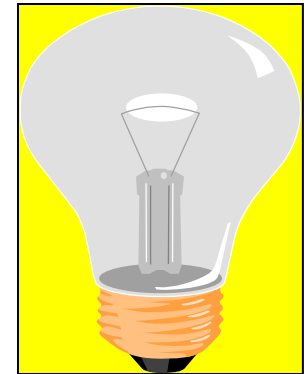Values at Risk

Control and Treatment

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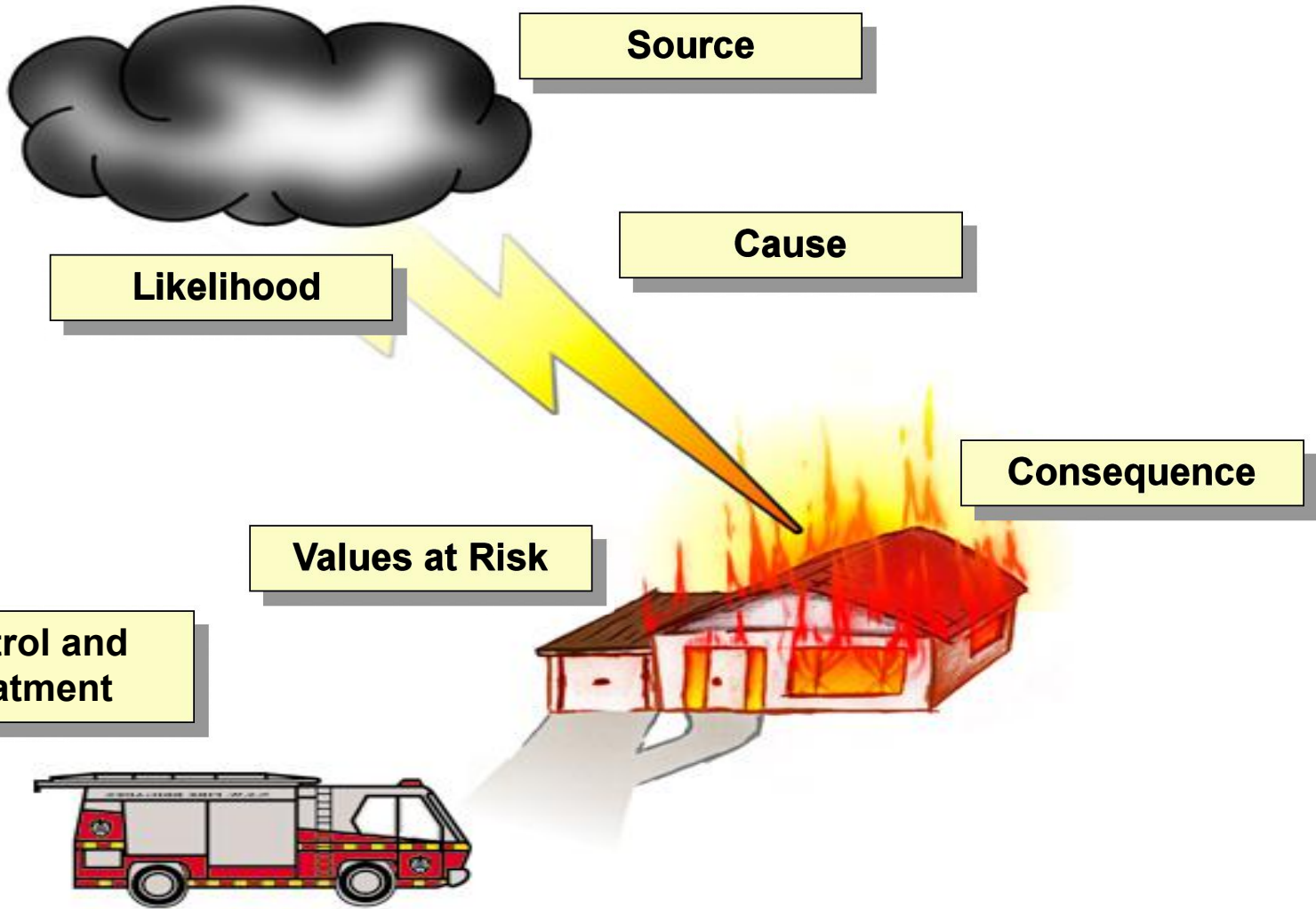
# The Language of Risk

- Vocabulary
- Discussion
- Understanding
- Control
- Treatment

# Risk Assessment Competencies

- Sensitivity and awareness  ➜
- Pragmatism - knowledge, experience and realism
- Extrapolation and Projection
- Negotiate the reality of future scenarios

# Consider the Case Study

BUSINESS RISK MANAGEMENT

- What is IA's current focus & capability?

- What problems or issues arise?

- Why caused this situation to exist?

- How can the causes be overcome?

- What action should be taken?

# 7. Risk, Quality, Control, Internal Audit, Self Assessment Frameworks

- Risk Management;
- Quality (ISO and Awards) frameworks
- Control frameworks (Philosophies, COSO, CoCo)
- Internal Audit – Functional and Personal Competency
- CSA approaches and methods

# Role Reversal for Internal Auditors

FROM Internal Auditor:

- One on one
- Expert analyst
- Making statements
- Judging situations
- Writing the report
- Setting the pace
- Process owner

TO CSA Facilitator:

- One/two with many
- Guiding 'inexperts'
- Asking questions
- Not judging (openly)
- Collecting client data
- Guiding the pace
- Process manager

# Core Competencies for CSA

- Best *future* practice internal auditing
- Risk Assessment tasks
- Heron's approach to facilitation
- CSA tasks
- Role reversal for internal auditors
- Real-life workshop situations
- New Internal Auditing roles

# 8.  Creating an Accountability Environment

- Negotiating the dynamic contexts in which IA is performed;

- Re-balancing from bureaucratic to communal;

- Developing understanding about contexts, risk and control;

- Supporting accountability with CSA;

# 9. What to Audit – Priorities, Subjects, Issues

- Auditing the future – plans, developments, investments;
- Auditing the future – contexts, risks, controls;
- Management's priorities, subjects, issues
- Risk-Based planning or Service Needs selling?

# 10. Designing the Services Needed

- Bundling assurance services;
- Delivering on satisfaction drivers;
- Time to perform, to complete;
- Different services, in a *range* of services

# Many Paradigm Shifts

## FROM

- Control
- Risk
- Threats
- Past
- Review
- Current
- Operations Audits

## TO

- Risk  *(wait a moment)*
- Dynamic Contexts
- Opportunities
- Future
- Preview
- Concurrent
- Audits of Strategy

# CONTROL  Paradigm Shifts

## FROM:

- Formal Control
- Hard Control
- Control Practices
- COSO (U.S.A)
- Control Evaluation
- Control Systems

## TO:

- Informal Control
- Soft Control
- Control Systems
- CoCo  (Canada)
- Control Self Assessment
- Control Philosophies

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# Consider your own Situation

CONTROL PARADIGM SHIFTS

- What is your current focus?

- What problems or issues arise?

- Why caused this situation to exist?

- How can the causes be overcome?

- What action should be taken?

# Many Paradigm Shifts

## FROM:

- Risk
- Threats
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## TO:

- Dynamic Contexts
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# Many More Paradigm Shifts

## FROM

- Auditor
- Imposition
- Persuasion
- Independence
- Audit knowledge
- Catalyst

## TO

- Consultant
- Invitation
- Negotiation
- Value
- Business knowledge
- Facilitator

# Consider your own Situation

BEST PRACTICE PARADIGM SHIFTS

- What is your current strategy & focus?
- What problems or issues arise?
- Why caused this situation to exist?
- How can the causes be overcome?
- What action should be taken?

# Getting the the *Right Side* of Internal auditing

## What does it take?

# Internal Auditing's *Best Practice* Value Proposition

- Service **Quality** dimension

- **Substantive** Service dimension

- Organisational **Suitability** dimension

# Attributes of Service **<u>Quality</u>**

- Adding 'Distinctive' value which is useful and gains client appreciation;

- Sufficient sources and types of expertise;

- Broad perspectives of the organisation and of risk

- Professionalism and objectivity

- Targeting best practice.

# **Substantive** Service Criteria

- Focus on business and financial risks
- Asset protection and fraud control are part of risk management
- Contribute to understanding risk and control
- Promote understanding about the effect of change on risk and control
- Leading edge risk and control models used

# Organisational **<u>Suitability</u>** Dimension

- Organisational closeness
- Organisational coverage
- Anticipation and proactivity
- Moving with change

# Organisational **Suitability** Criteria

ORGANISATIONAL 'CLOSENESS'

- Focus on 'useful' topics

- Deep understanding of organisation and management needs

- Demonstrated leadership in initiatives with organisation stakeholders

# What does it Take?

- A Repositioning Strategy
- Anticipating organisational needs
- Developing understanding of risk and control
- Developing expectations of assurance services.

# What does it *Really* take?

Being the right person
at the right place
at the right time
doing the right things
Competently.