

Internal Audit Value Proposition

What is Internal Audit?

Internal auditing is:

An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The mission of internal audit is:

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

The key reference document for internal audit practice is the 'International Professional Practices Framework' (IPPF) published by the Internal Audit Foundation (2017).

Internal audit:

- › Provides independent, unbiased assessment of organisation operations.
- › Provides management with information on the effectiveness of risk management, control and governance processes.
- › Acts as a catalyst for improvement in risk management, control and governance.
- › Is an adviser that tells management what it needs to know, when it needs to know it.

(The Institute of Internal Auditors - Australia, 2022)

What is a Value Proposition?

In a business setting, a Value Proposition can be defined as:

An innovation, service or feature intended to make an organisation or product attractive to customers.

With internal audit, the value proposition is based on three core elements of value delivered by internal audit to an organisation:

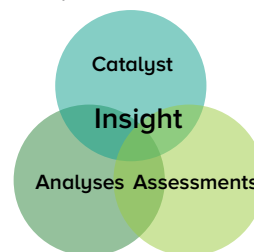
- › Assurance
- › Insight
- › Objectivity

(The Institute of Internal Auditors. Inc, 2010)

- › Assurance = Governance, Risk, and Control
Internal audit provides assurance on the organisation's governance, risk management and control processes to help the organisation achieve its strategic, operational, financial and compliance objectives.



- › Insight = Catalyst, Analyses, and Assessments
Internal audit is a catalyst for improving an organisation's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business process.



- › Objectivity = Integrity, Accountability, and Independence.
With commitment to integrity and accountability, internal audit provides value to governing authorities and senior management as an objective source of independent advice.



Governing authorities and senior management rely on internal audit for objective assurance and insight on the effectiveness and efficiency of governance, risk management and control processes.

(The Institute of Internal Auditors. Inc, 2010)

What is the Internal Audit Value Proposition Important?

Internal audit is a non-core business activity, so can be at greater risk than other organisation activities when there are tough business conditions and economic downturns. This can make internal audit vulnerable, so it is critically important for internal audit services to deliver real value and for audit clients to understand and appreciate that value.

Internal audit adds value by improving an organisation’s operations and helping it to accomplish its objectives. The value is realised when:

- › Internal audit’s suggested improvement actions are implemented.
- › The outcomes support the needs and expectations of the audit committee and chief executive officer.
- › The cost of internal audit services are reasonable.

How is the Internal Audit Value Proposition Achieved?

The internal audit value proposition is achieved when internal auditors:

Clearly demonstrate the internal audit value proposition from internal audit services provided over the year

An informative internal audit annual report is an excellent way to explain the internal audit value proposition and how internal audit added value over the year. An internal audit annual report tells the internal audit story for the year.

Answer the question:

What was the value proposition from internal audit services over the year?

Clearly demonstrate the internal audit value proposition in each internal audit report

Answer the question:

What was the value proposition from this audit?

Follow-up previous audits to assess whether remedial action has been effectively implemented.

Every time an audit, review or evaluation is commissioned in an organisation there are improvement actions to be implemented by management. An internal audit role is to monitor and track these to make sure they are properly implemented in a timely way. Without this internal audit role, the cost and effort involved in audits, reviews and evaluations is potentially wasted if things do not change for the better.

What Other Value-Add can Internal Audit Provide?

Help the chief executive officer keep their job

It has been said that internal audit is the ‘eyes and ears’ of management because it gets around the organisation and looks at lots of risk areas. When the organisation’s risk management, control and governance are operating properly, the chief executive officer is protected. Many chief executive officers have found to their cost that they took their eye off something that ultimately cost them their job. Examples are high-risk programs and projects that collapse in a spectacular or costly way or are never delivered. Or a gift and benefit

policy that is treated with disdain by employees. Internal audit applying a lens to these activities can provide tighter controls and greater comfort for the chief executive officer that things are working as they should.

Pay its way

Some chief audit executives adopt an approach that their internal audit function will have a key performance measure (KPI) to pay for itself by savings and recoveries generated from its audit observations. Many purists can be critical of this approach, but internal audit is a non-core function with a cost, so it is something worth considering. This approach is usually popular with chief executive officers.

Internal Audit Value Proposition in Action

The following table demonstrates what the internal audit value proposition might look like in the internal audit report for an Accounts Payable audit.

Assurance <i>Opinion</i>	Insight <i>Fresh Ideas</i>	Objectivity <i>Impartial</i>
› Clear policies, procedures, and delegations are available and kept updated	› Current technology requires upgrade within two years	› There were no conflicts of interest requiring action for audit staff
› Valid supplier and vendor invoices are properly recorded and promptly paid	› A benchmarking analysis of metrics included the organisation’s average processing costs	› Audit scope was clear, unlimited, and unambiguous
› Very few supplier complaints	› Internal processing costs are significant due to low volumes and inefficient work practices leading to high staffing levels	› Full access was available to organisation records, personnel, and properties
› The risk of fraud, error, and loss is well-managed	› Processing costs could be more than halved if activity was outsourced	› There was sufficient and capable audit resourcing
› Effective segregation of duties is maintained		› Independent advice was delivered and was well-received

(Turner, 2020)

Linking Value Proposition to the Internal Audit Vision

Where the chief audit executive has agreed an internal audit vision with the audit committee and chief executive officer, it can be useful to demonstrate the value internal audit has delivered in relation to the vision. This would be at a point in time, understanding implementation of an internal audit vision is a long-term journey. It is a matter of communicating with primary stakeholders in a way they can comprehend. The internal audit annual report is a perfect place to show progress toward the internal audit vision by reporting progress to date.

Acknowledgment

This Factsheet has drawn upon information from ‘The Value of Internal Auditing for Stakeholders’ published by The Institute of Internal Auditors, Inc and the ‘Team Leader’s Guide to Internal Audit Leadership’ authored by Bruce Turner and published by the Internal Audit Foundation. Bruce Turner lives in Sydney, Australia.

Useful References

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