STRONGER COLLABORATION WITH STAKEHOLDERS

A 'Stakeholder' is a person with an interest or concern in something, in this context the internal audit function.

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Fiji

Delivering stakeholder value

Bruce Turner AM

CGAP, CRMA, CISA, CFE, PFIIA, FFIN, FIPA, FFA, FAIM, MAICD, JP

Board Member and Audit Committee Chairman IIA-Australia, Sydney

IIA Fiji Annual Conference – May 2017

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"Internal Audit has got to be the coolest profession in the world.

If you are an internal audit you don't need to dress different, speak different or act different. You will always stand out in the crowd and be identified.

It's a job that's important, intellectually stimulating, diverse and interesting. More importantly, it's a job that gives you the most holistic view of the organisation."

Pretty Pritika, IIA Fiji President *(Sourced from IIA Fiji website 14 April 2017)*

IIA Fiji Annual Conference – May 2017

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With internal audit playing a unique role in the organisation, they work with a range of stakeholders in the organisation.

BRINGING IT ALL TOGETHER

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Contents

Bringing it all together

Part 1 – Rising to the challenges

Part 2 – Stakeholder engagement

Part 3 – Strategic alignment

Part 4 – Delivering greater value

Positioning for future success

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Fiji

What's in it for you

Stories and Facts

Audience Questions

Fresh Ideas & Insights

?

Action points for you to consider

Information on FREE reference resources

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Working with stakeholders

"Talking to and working with stakeholders is fundamental to internal auditing. It enables internal auditors to explain the value of internal audit while getting to know stakeholder expectations."

- Induction program
- Periodic update meetings
- Intranet or internet site
- Internal audit newsletter
- Short guides on audit process
- Periodic stakeholder meetings

Source: *Working with Stakeholders*, Chartered Institute of Internal Auditors (London), June 2016 (Modified)

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Building internal audit awareness

"Many professions enjoy an inherently universal understanding of their value. Most people understand the role of a doctor, for example, so a campaign designed to build awareness of what doctors do is generally not necessary.

Unfortunately, this may not be true for the internal audit profession. In fact, even internal auditors' close friends and family don't understand exactly what an internal auditor does."

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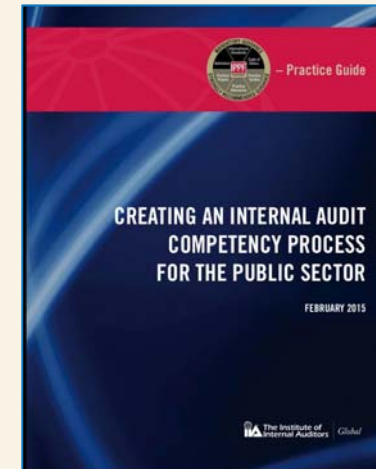
⭐ Action Points & Resources

- Stronger collaboration with stakeholders requires highly capable communicators:
    - Oral
    - Listening
    - Body language
    - Written

- If you're not building these competencies … you're probably falling behind.

Core principle: *Communicate effectively*

Stakeholder Engagement and Communication Presentation by Wendi Watkins - IIA Fiji Website (Resources)

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Effective internal auditors are closely related to their knowledge of the organisation's mission, strategy, objectives and risks.

PART 1
RISING TO THE CHALLENGES

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Internal audit's mission

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

"Good business leaders should be a step ahead of what customers want …

… and good auditors often need to be a step ahead of management."

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Core Principles of Auditing: IPPF

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives and risks of the organisation.
- Is appropriately positioned and adequately resourced.

- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive and future-focused.
- Promotes organisational improvement.

13

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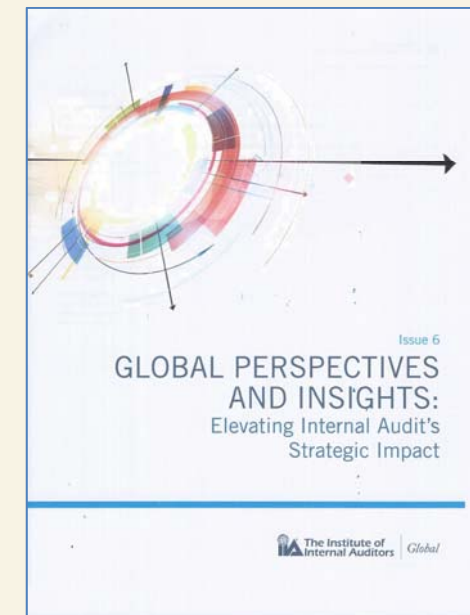Internal Auditors
Fiji

Government delivery

- Deliver government commitments

- Avoid loss of control, particularly in times of change

- Provide consistent service delivery (without failures)

- Provide reliable information for decision-making

- Minimise opportunities for fraud and corruption, given increased use of electronic service delivery

- Ensure efficient use of resources

- Minimise potential maladministration

Elevating the internal audit function

- Understand strategic mission of organisation

- Understand perspective of CEO, Board, executive

- Become a trusted partner - offer strategic solutions

- Align complete audit team to strategic mission

- Help organisation embrace risk management as a source of strategic advantage

- Align audit plan with strategic plan

- Speak with CEO, Board and executive in terms of impacts to the strategy

Source (2016):

Issue 6
GLOBAL PERSPECTIVES AND INSIGHTS:
Elevating Internal Audit's Strategic Impact

The Institute of Internal Auditors | Global

The Institute of Internal Auditors Fiji

⭐ Action Points

- Track how internal audit is enhancing and protecting organisational value

- Position internal audit team to be a step ahead of management

- Align internal audit efforts with the strategies, objectives and risks of the organisation

- Develop internal audit capability so the team is insightful, proactive and future-focused

  Core principle

- Understand how your work ultimately helps the government to deliver its commitments

- Speak with CEO, Board, executive in terms of impacts to strategy

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In the building of strong collaborative relationships with their stakeholders (board, audit committee and management) internal auditors are in constant contact with the business, thereby being able to quickly grasp any strategic changes.

PART 2
STAKEHOLDER ENGAGEMENT

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Stakeholder management theory

- For management to successfully implement its vision, mission and business strategy it must have the support of those who can affect the organization

- The identification of key stakeholders and their interests is important in:

    - ensuring the success of an internal audit function; and

    - ensuring internal audit efforts are appropriately aligned with the needs of their organisation.

Chief Executive Officer

Chair of Audit Committee

Audit Committee Members

C-Suite

CFO

ISACA Association

IIA Institute

Third party service providers

Auditor General

Corporate secretariat

Human Resources

Legal Counsel

Audit clients

CPA Association

Audit clients

Key Entity Committees

Others in public sector

Senior Accounting practitioners

Other assurance providers

Business line executives

Local professional leaders

Counterparts in other jurisdictions

Internal service providers

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Stakeholder relationship planning

Key implementation steps

- Identify key stakeholders

- Categorize stakeholders in terms of influence and impact within organization

- Articulate the various engagement strategies

- Develop understanding of needs of respective stakeholders

- Build and maintain effective working relationships with each stakeholder

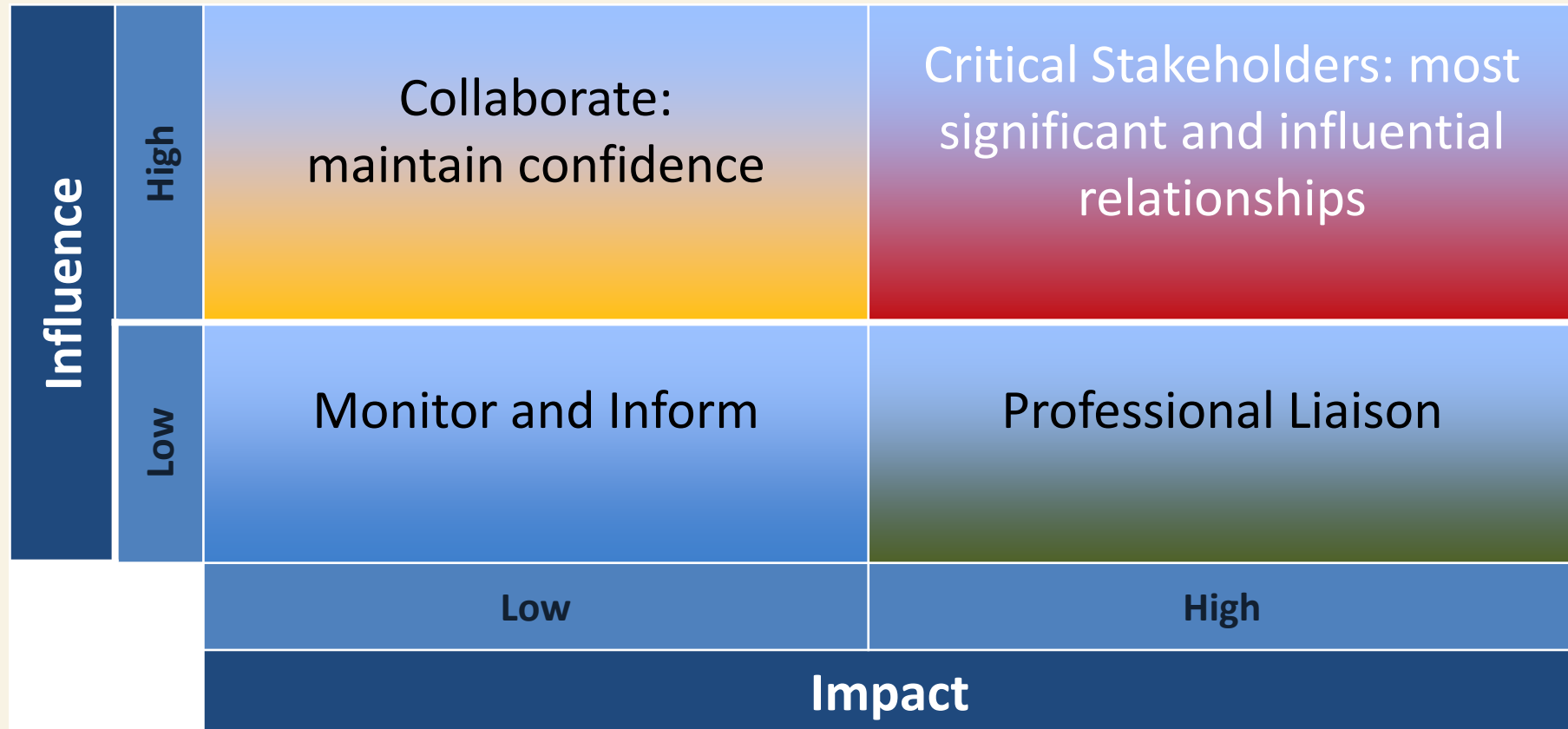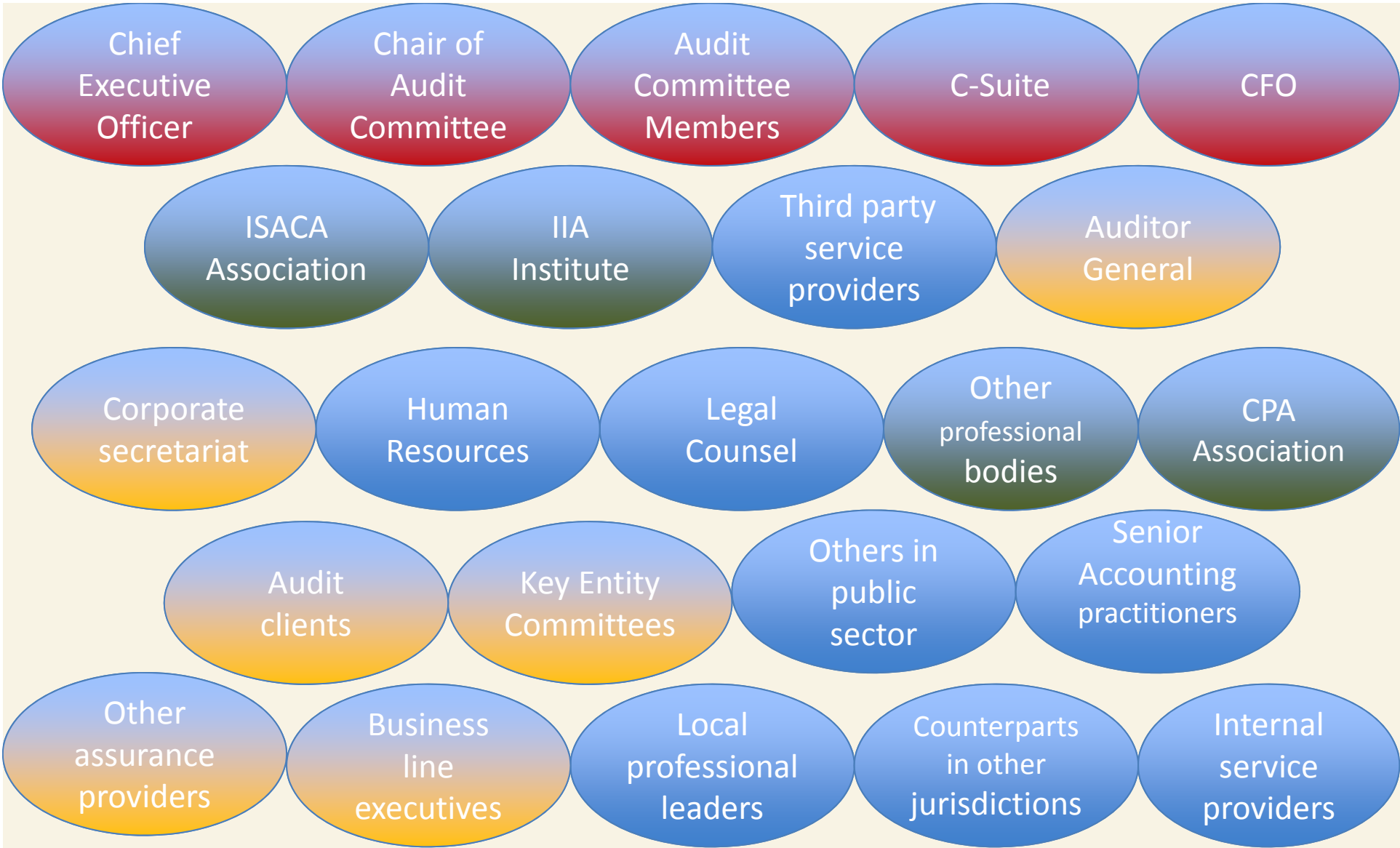- Evaluate stakeholder relationship program on a regular basis

Stakeholder relationship chart

Chief Executive Officer

Chair of Audit Committee

Audit Committee Members

C-Suite

CFO

ISACA Association

IIA Institute

Third party service providers

Auditor General

Corporate secretariat

Human Resources

Legal Counsel

Other professional bodies

CPA Association

Audit clients

Key Entity Committees

Others in public sector

Senior Accounting practitioners

Other assurance providers

Business line executives

Local professional leaders

Counterparts in other jurisdictions

Internal service providers

Critical stakeholders.   **Collaborate.**   **Professional liaison.**   **Monitor and inform.**

Example of stakeholder prioritisation

Collaborate	Critical Stakeholders
▪ Other internal assurance providers ▪ Senior executives in business lines ▪ Audit clients ▪ Auditor General (Legislative auditor) ▪ Corporate Secretariat ▪ Organizational Committees	▪ Chief Executive Officer ▪ Chair of Audit Committee ▪ Audit Committee Members ▪ CFO ▪ C-Suite
Monitor and Inform	**Professional Liaison**
▪ Senior Accounting practitioners ▪ Other members of the public sector ▪ Counterparts in other jurisdictions ▪ Local professional leaders ▪ Third party service providers ▪ Internal Service providers (HR, Legal etc)	▪ Professional bodies (IIA, ISACA, CPA etc)

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Excerpt from SRP - Illustrative

Stakeholder	Importance of Relationship	Interests / Needs of the stakeholder	Staff Responsible	Frequency	How and What provided
Chief Executive Officer	Powerful as a key champion	High level and significant issues that relate to achievement of strategic priorities of the entity	CAE	Formal Quarterly scheduled meetings As necessary	Timely advice and insights
Chair – Audit Committee	Critical as the CAE reports functionally to this role	Advice on trends and issues related to governance, risk management and control Assurance that the audit plan is being accomplished Appropriateness of staffing and resourcing of IA Early warning on emerging issues from audits	CAE	Monthly discussions Scheduled audit committee In camera sessions as part of all audit committee meetings As required	Formal audit committee meetings Scheduled off line discussions

Engaging for success

Communication imperatives

- Clear and consistent
- Regular and relevant
- Transparent and honest
- Active two-way communication (listen and feedback)
- Promotes organisational improvement initiatives

Core principle

Benefits of stakeholder plans

- Keeps you current with emerging issues, risks, priorities
- Educates stakeholders on role that internal audit can and should play
- Demonstrates how internal audit adds value
- Markets the contribution and services of internal audit

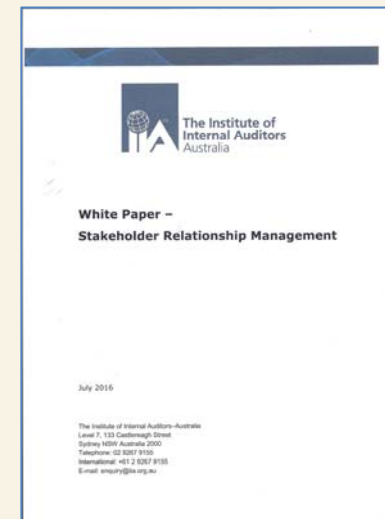The Institute of Internal Auditors Fiji

⭐ Action Points & Resources

- Formal and systemic stakeholder management framework does not currently exist for many internal auditors … ad hoc approach most often.

- Implementation of stakeholder relationship management principles is often informal.

- Structured stakeholder relationship plan helps internal audit to:

  - achieve alignment with strategies, objectives and risks of organisation; and **Core principle**

  - provide meaningful assurance, advice, insights **Mission**
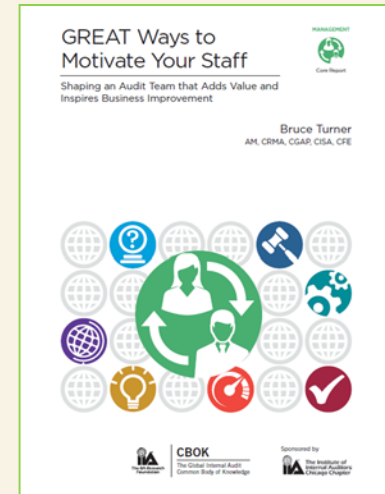
Source of exhibits 5, 3 and 7

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The work delivered by the internal auditors can be better aligned to the strategic risks of the organisation and greater value can be delivered to the stakeholders.
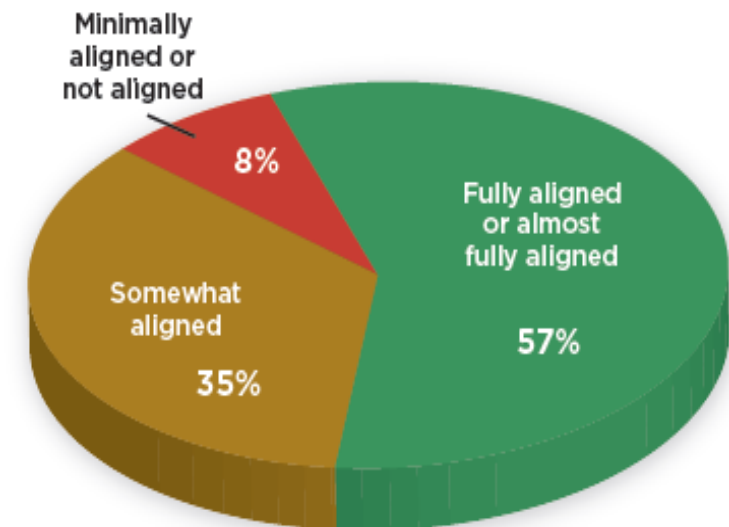
PART 3
STRATEGIC ALIGNMENT

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Strategic alignment

- Core values require internal audit to *align with the strategies, objectives and risks of the organisation.*

- According to CBOK 2016 study, about 2 in every 5 internal audit functions fall short of fulfilling this core value.

Exhibit 5 Internal Audit Aligned with the Strategic Plan of the Organization

Minimally aligned or not aligned 8%

Fully aligned or almost fully aligned 57%

Somewhat aligned 35%

Note: Q57: To what extent do you believe your internal audit department is aligned with the strategic plan of your organization? CAEs only. *n* = 2,756.
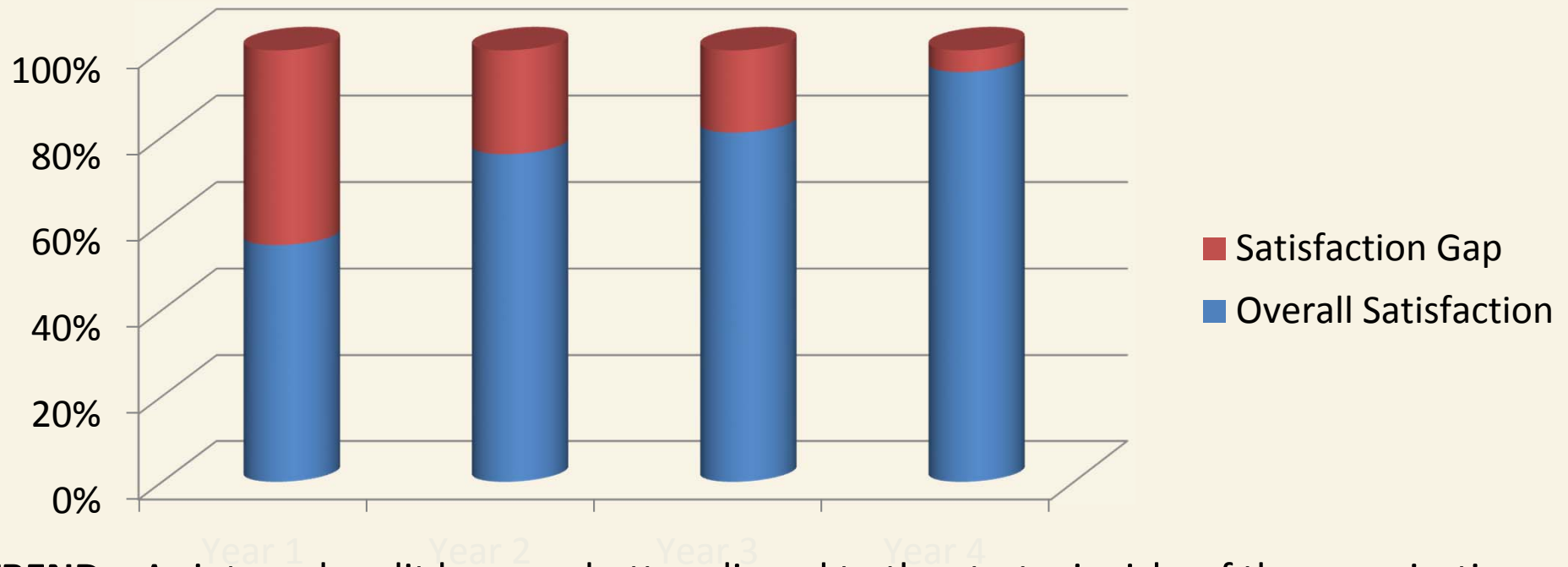
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End-to-end alignment

Exhibit 3 Individual Goals Contributing to Strategic Objectives

- Auditors' Individual Goals
- Internal Audits' Mission & Objectives
- Organization's Strategic Objectives

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Exhibit 7 Example of Aligning Individual Performance Measures to Balanced Scorecard KPIs

Balanced Scorecard Element	Examples of Departmental Key Performance Indicators (KPIs)	Measure Type	Applicability	
			Audit Leaders	**Auditors**
Partnering with the audit committee	Audit committee expectations met	Qualitative	Yes	If directly relevant
	Percentage of audit plan complete	Quantitative	Yes for own team	Yes for personal allocation
Supporting executive and senior management	Client satisfaction goals — value added	Qualitative	Yes for own team	Yes for own audits
	Client satisfaction goals — usefulness of recommendations	Qualitative	Yes for own team	Yes for own audits
	Cycle times (duration period of audits)	Quantitative	Yes for own team	Yes for own audits
Managing internal audit processes	Performance against the internal audit financial budget	Quantitative	Applies to CAE	Not applicable
	Maintain current internal audit charter, intranet, audit manual	Qualitative	Applies to CAE	Not applicable
	Budget to actual audit times	Quantitative	Yes for own team	Yes for own audits
	Conformance with quality assurance and improvement standards (based on internal and external quality assessments)	Qualitative	Yes for own team	Yes for own audits
Managing internal auditors and their development	Internal auditor workforce satisfaction	Qualitative	Yes for own team	Not applicable
	Completion of initiatives in professional development plan	Quantitative	Yes for own team	Yes personally
	Optimizing utilization of internal audit resources (to conduct audits while minimizing "administration")	Quantitative	Yes for own team	Yes personally

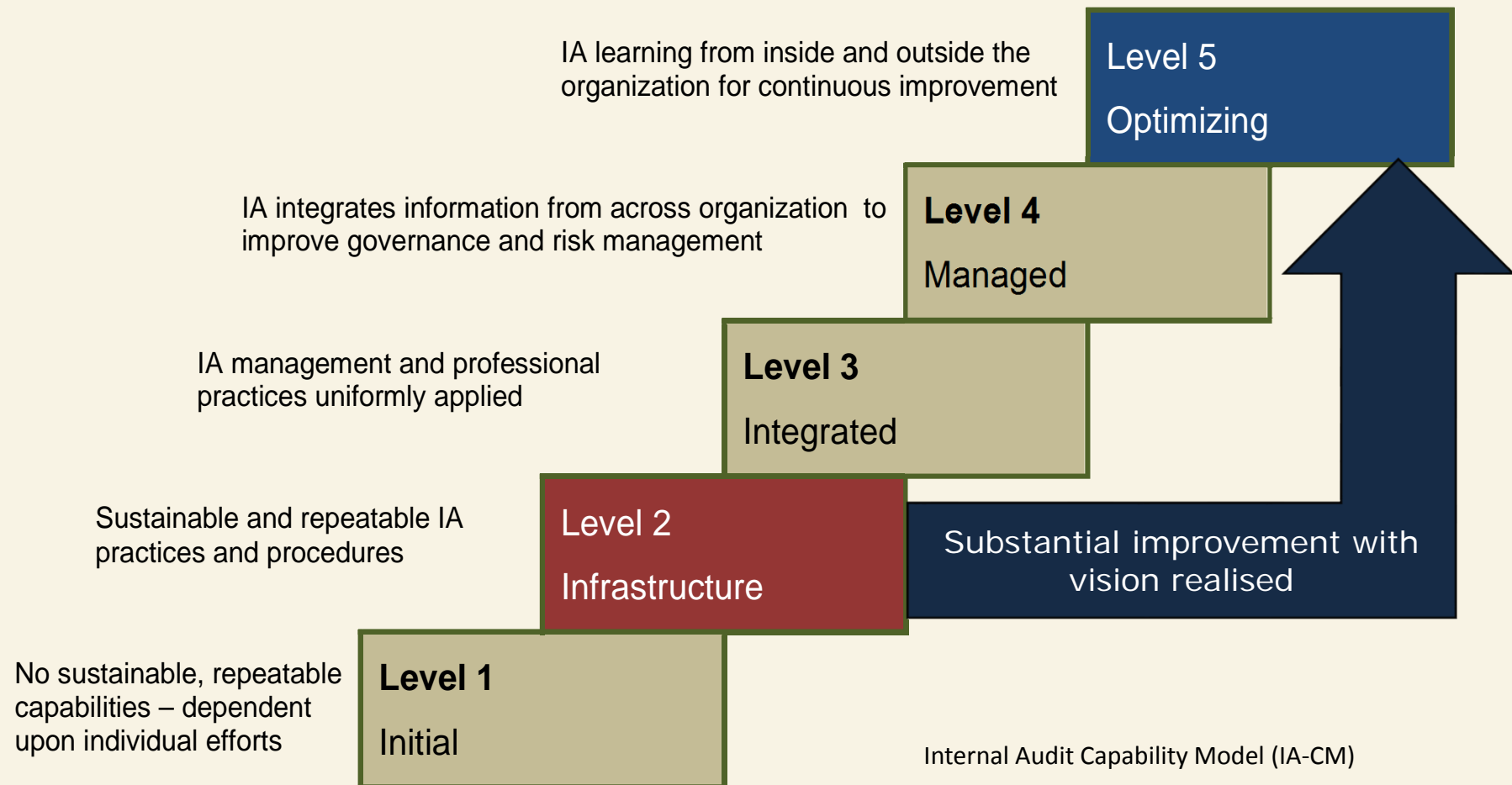# Meeting stakeholder expectations

TREND: As internal audit became better aligned to the strategic risks of the organisation, the overall audit committee satisfaction improved from 55% in yr1 to 95% in yr4.
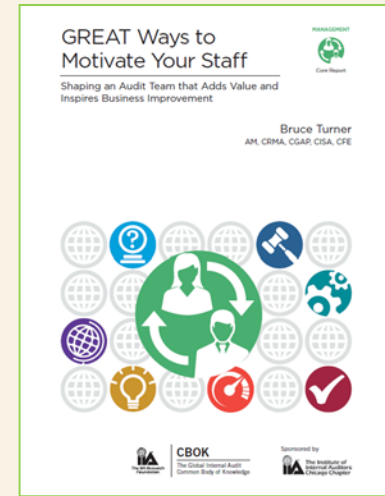
Delivering stakeholder value capably

IA learning from inside and outside the organization for continuous improvement

Level 5

Optimizing

IA integrates information from across organization to improve governance and risk management

Level 4

Managed

IA management and professional practices uniformly applied

Level 3

Integrated

Sustainable and repeatable IA practices and procedures

Level 2

Infrastructure

Substantial improvement with vision realised

No sustainable, repeatable capabilities – dependent upon individual efforts

Level 1

Initial

Internal Audit Capability Model (IA-CM)

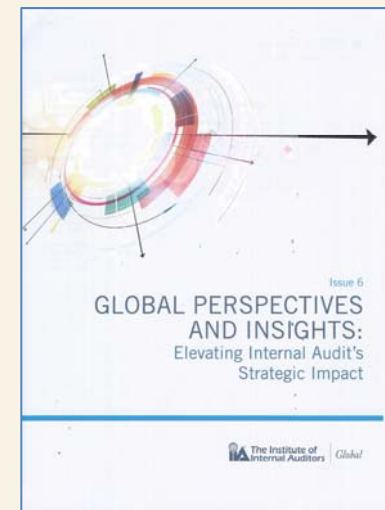The Institute of Internal Auditors Fiji

⭐ Action Points & Resources

- Structured stakeholder relationship plan helps internal audit to *close the gap* by achieving <u>full</u> alignment with the strategic plan of organisation

- There needs to be end-to-end alignment between auditors' individual goals, internal audit's mission and objectives, and organisation's strategic objectives

- Meaningful measures needed to track the above

- Make a point of speaking to key stakeholders in terms of impacts to the strategy
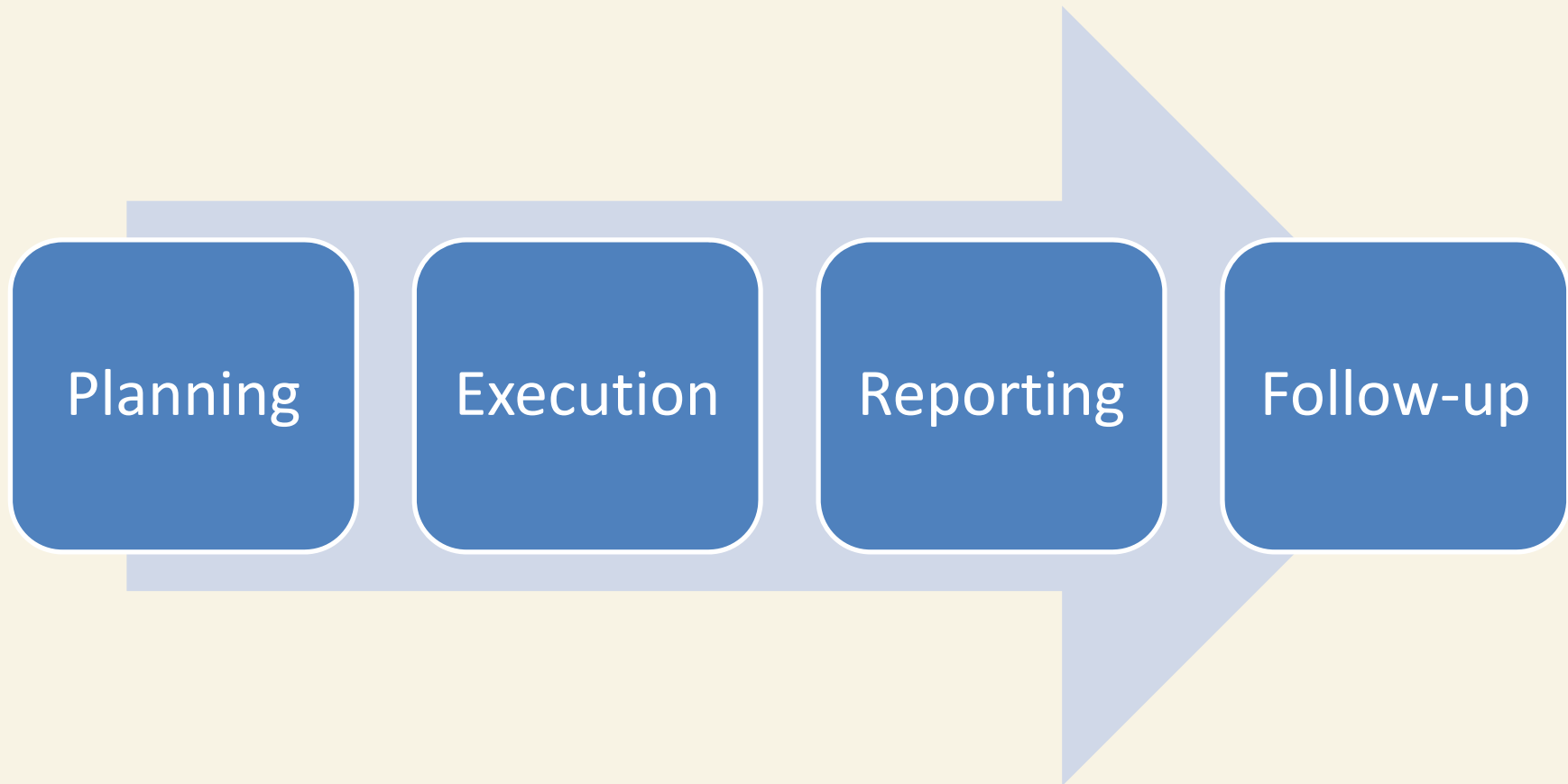
Source of exhibits
5, 3 and 7

Insights on how to build a strong collaboration between internal auditors and its stakeholders and the value that can be derived.

PART 4
DELIVERING GREATER VALUE

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Distinct audit phases

Planning → Execution → Reporting → Follow-up

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Insight 1 - Planning

- Internal auditors play a key role in enhancing and protecting organisational value and helping organisation's accomplish their objectives

- They achieve this through well-founded audit planning

- The core pillars of consultation, analysis and research are used to deliver forward audit plans

- Achieving full alignment with the organisation's goals requires greater analysis of the strategic plan of the organisation

- CAE to produce a covering business paper to audit committee that convincingly articulates robustness of planning effort

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Forward Audit Plan

- Risk-based audit plan that determines the priorities of the internal audit activity and provides information for each of the audit topics. Includes longer-term plans - three-year, annual and rolling.

Engagement Plan

- Plan for each engagement, including the audit topic, risks, objectives, scope, timing and resource allocations.

Engagement Work Program

- Detailed work plan that lists the procedures to be followed to achieve the objectives of the engagement plan.

Forward Audit Plan

↑

Prioritise 'menu of audits' using suitable risk prioritiser model

↑

The three pillars of audit planning provide a 'menu' of potential audits (audit universe)

| Consultation	Analysis	Research
Discussions with audit committee	Entity's strategy	Global hotspots: business risk
Discussions with CEO	Entity's business objectives	Industry developments
Discussions with management	Entity's risk appetite statement	Environmental scan
Dialogue with business heads	Enterprise risk assessment	Business drivers and pressures
Needs of audit committee chair	Business unit risk assessments	Changes in government policy
Requests from external auditors	Compliance requirements	Changes in auditing standards
Requests from regulators	Regulatory requirements	Auditing tools and techniques
Dialogue with other stakeholders	Systems under development	Comparative GAIN data
Dialogue with other CAEs	Results of external audit	Audit committee publications
Facilitated planning workshops	Prior year audit plan	Internal Audit Foundation
Input from internal audit team	Fraud control plan	Emerging fraud risks
Insights of governance specialists	Data on investigation outcomes	External trends in corruption
Focus: Internal and external	*Focus*: Internal	*Focus*: External

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Planning – global hotspots

- Geopolitics
- Governance
- Corporate culture
- Compliance
- Working environment
- Managing next generation
- Cyber-security
- Fraud and corruption
- Trusted advisor
- Transformation

DISCUSSION PAPER

10 HOT TOPICS FOR THE 2017 INTERNAL AUDIT PLAN

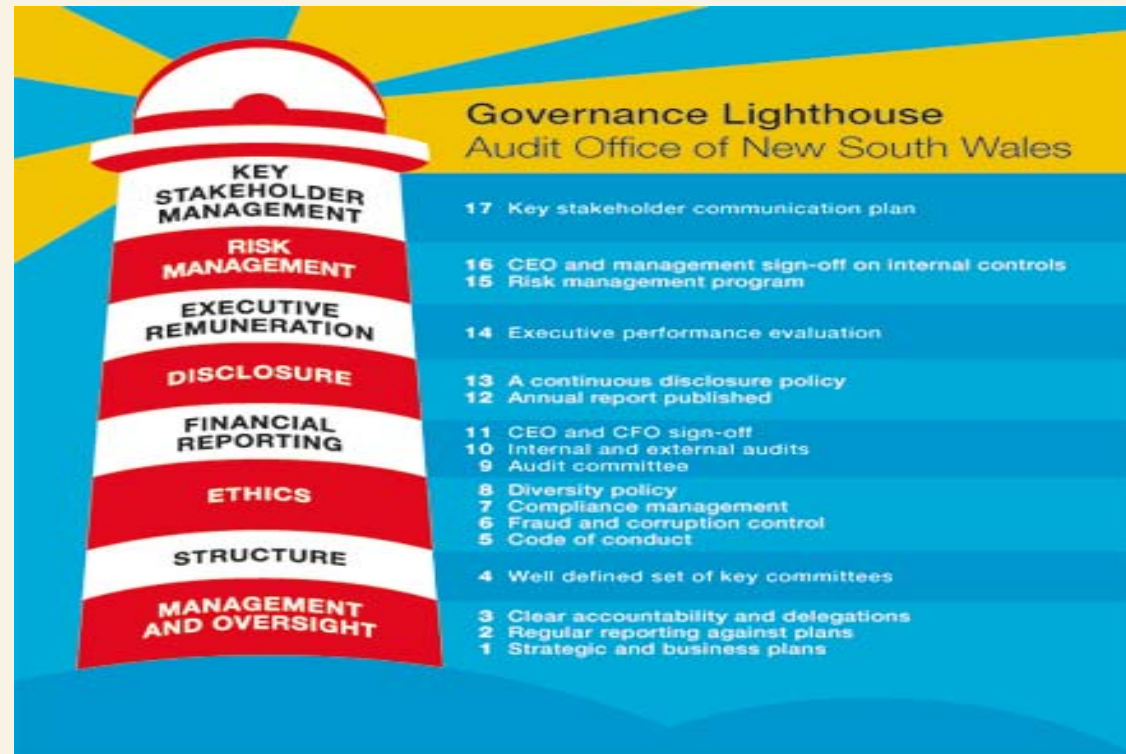The Institute of Internal Auditors

France
Italy
Spain
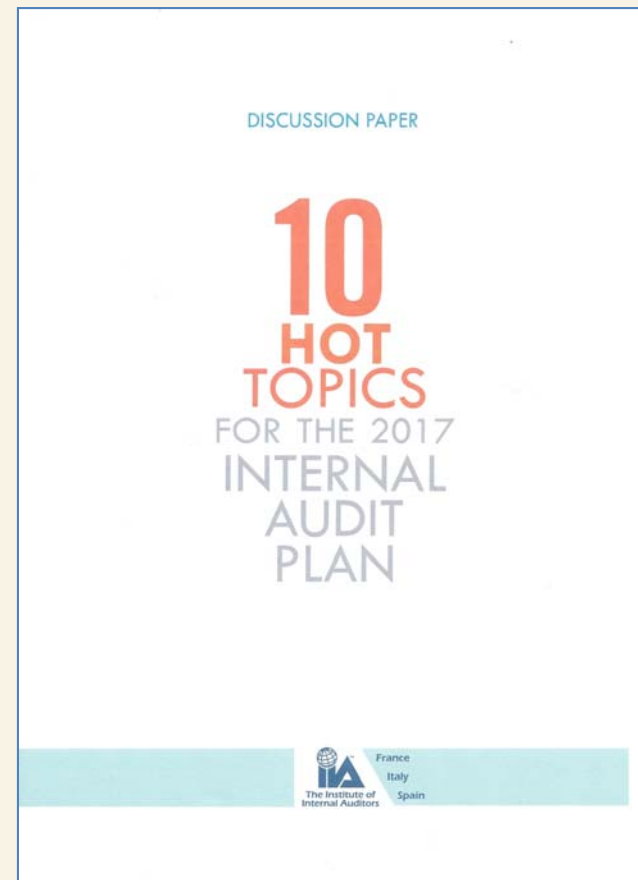
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Global hotspot topics can be split

Governance
has many
different lenses
... including key
stakeholder
management

Governance Lighthouse
Audit Office of New South Wales

KEY STAKEHOLDER MANAGEMENT

RISK MANAGEMENT

EXECUTIVE REMUNERATION

DISCLOSURE

FINANCIAL REPORTING

ETHICS

STRUCTURE

MANAGEMENT AND OVERSIGHT

17 Key stakeholder communication plan

16 CEO and management sign-off on internal controls
15 Risk management program

14 Executive performance evaluation

13 A continuous disclosure policy
12 Annual report published

11 CEO and CFO sign-off
10 Internal and external audits
9   Audit committee

8   Diversity policy
7   Compliance management
6   Fraud and corruption control
5   Code of conduct

4   Well defined set of key committees

3   Clear accountability and delegations
2   Regular reporting against plans
1   Strategic and business plans

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⭐ Action Points

- Establish a structured audit planning process, incorporating the three pillars of consultation, analysis, and research

- Identify potential audit topics (and establish audit themes)

- Produce a well-considered draft forward audit plan

- Include high-level reviews in plan drawing from global hotspots … governance, corporate culture, compliance …

- Prepare a convincing covering business paper

- Disseminate approved forward audit plan to stakeholders

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Insight 2 – Execution - Compliance

- Effective compliance programs encompass obligations under laws, regulations, standards, licences, policies, plans, contracts, procedures, guidelines, specifications

- Some compliance obligations are mandatory whereas others are voluntary (eg internal codes of conduct, industry codes)

- An organisation's reputation can be severely impacted when serious non-compliances occur and lead to prosecution, fines, or imprisonment of company officials

- Audit committees want an evaluation of overall compliance framework, not just micro-level 'bits and pieces' of compliance

Maturity Level of Internal Audit Function

Foundation	Positioning for Success	Mature Practice

Potential Internal Audit Activities

Foundation	Positioning for Success	Mature Practice
		Compliance governance Compliance framework (overall)
	Central regulatory coordination Compliance committee meetings	
Compliance activities (micro-level 'bits and pieces')		

⭐ Action Points

- Complete a high-level assessment of compliance governance - licence conditions, legislative / regulatory obligations

- Conduct a periodic high-level internal audit to assess the compliance framework at a macro level

- Facilitate CAE (or alternate) to periodically attend key board or executive compliance committee meetings as an observer

- Include individual audits in internal audit plan to consider discrete 'at risk' compliance activities at a micro level

- Provide central regulatory coordination point for regulator's review team for high risk or high profile regulatory reviews

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Insight 3 - Themes-based Reporting

- Results of internal audits are reported to different managers depending on 'ownership' of the business operation; the reports are usually useful at an operational level

- Themes-based reporting is a value-adding approach that helps the CAE determine, consolidate and report high-level insights to the ARC, CEO and other key stakeholders

- Internal audit outcomes are grouped into related higher-level topic areas (or themes)

- The themes are typically established during the development of the forward audit plans

Examples of audit themes

- Core business activities
- Business and ICT change
- Security and privacy
- Contract and outsourcing management
- Overheads management

- Fraud, corruption and culture
- Financial stewardship
- Strategic reviews
- Management information
- Assurance activities

Primary Elements	Secondary Elements
- Entity's strategic / statutory objectives. - Business identity. - Entity's risk profile and emerging risks. - Critical business drivers and changes.	- Economic and operating environments. - Regulatory obligations. - Global connectivity. - Emerging technologies.

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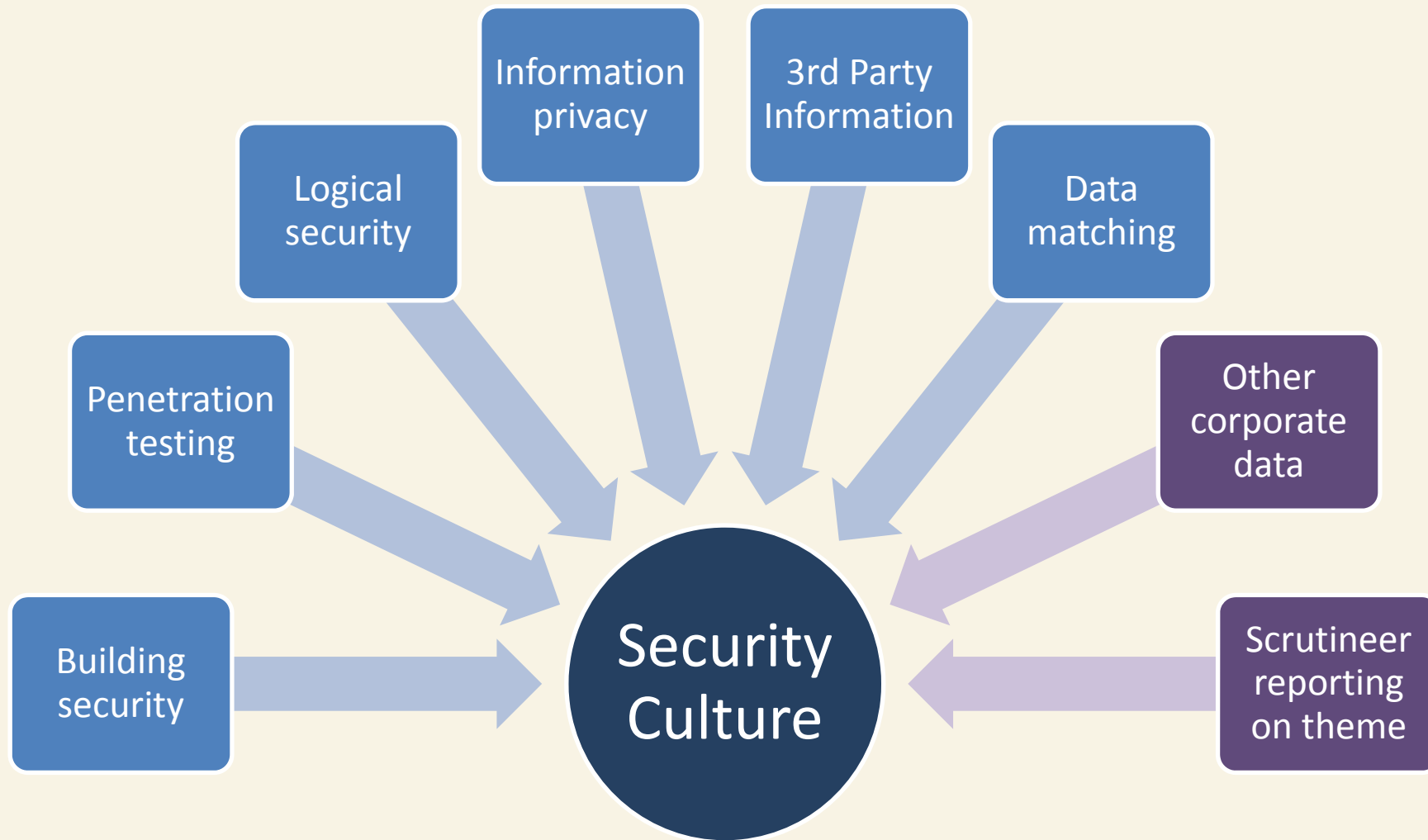
⭐ Action Points

- Develop the concept of themes-based audit reporting in consultation with the audit committee Chair and CEO

- Workshop the practical approach with the internal audit team and modify the internal audit methodology accordingly

- Assign each audit topic against a defined audit theme in the forward audit plan

- Undertake themes-based analysis for audit themes, adding results of other corporate data and scrutineer reporting

- Form an overall opinion on each audit theme and produce a themes-based audit report to audit committee and CEO

Insight 4 - Collaborating on Reporting

- Audit, risk and compliance professionals have specific roles to play, with each role demanding its own unique expertise

- Audit committees need a well-coordinated approach that produces insightful information in order to fulfil their increasing obligations

- Audit, risk and compliance professionals are increasingly expected to work together to interpret and report on the patterns emerging in their collective work

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⭐ Action Points

- Embrace collaboration with other audit, risk and compliance areas in internal audit's stakeholder relationship program

- Identify areas where co-reporting with other audit, risk and compliance areas could add value to audit committee

- Establish regular coordination meetings with other audit, risk and compliance areas to determine and interpret patterns and trends, and best co-reporting to audit committee

- Produce co-reporting with other audit, risk and compliance areas through collaboration

- Leverage insights from co-reporting as input to internal audit plan

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Insight 5 - Reporting on Follow-ups

- CAE is required to establish a follow-up process to monitor and ensure that management actions have been effectively implemented to address audit recommendations

- An effective follow-up process facilitates periodic reporting to audit committee and CEO on status of recommendations

- Audit committees are increasingly demanding enhanced reporting that tells the story clearly and unambiguously

- They expect analysis of the data together with commentary and an opinion … not simply a full list of all audit recommendations with the current status

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Comparison of reporting styles

Analysis that tells the story
High stakeholder value
Meets basic requirements and provides
risk-based and objective assurance,
advice and insights

List of recommendations
Low stakeholder value
Meets basic requirements of audit
committee

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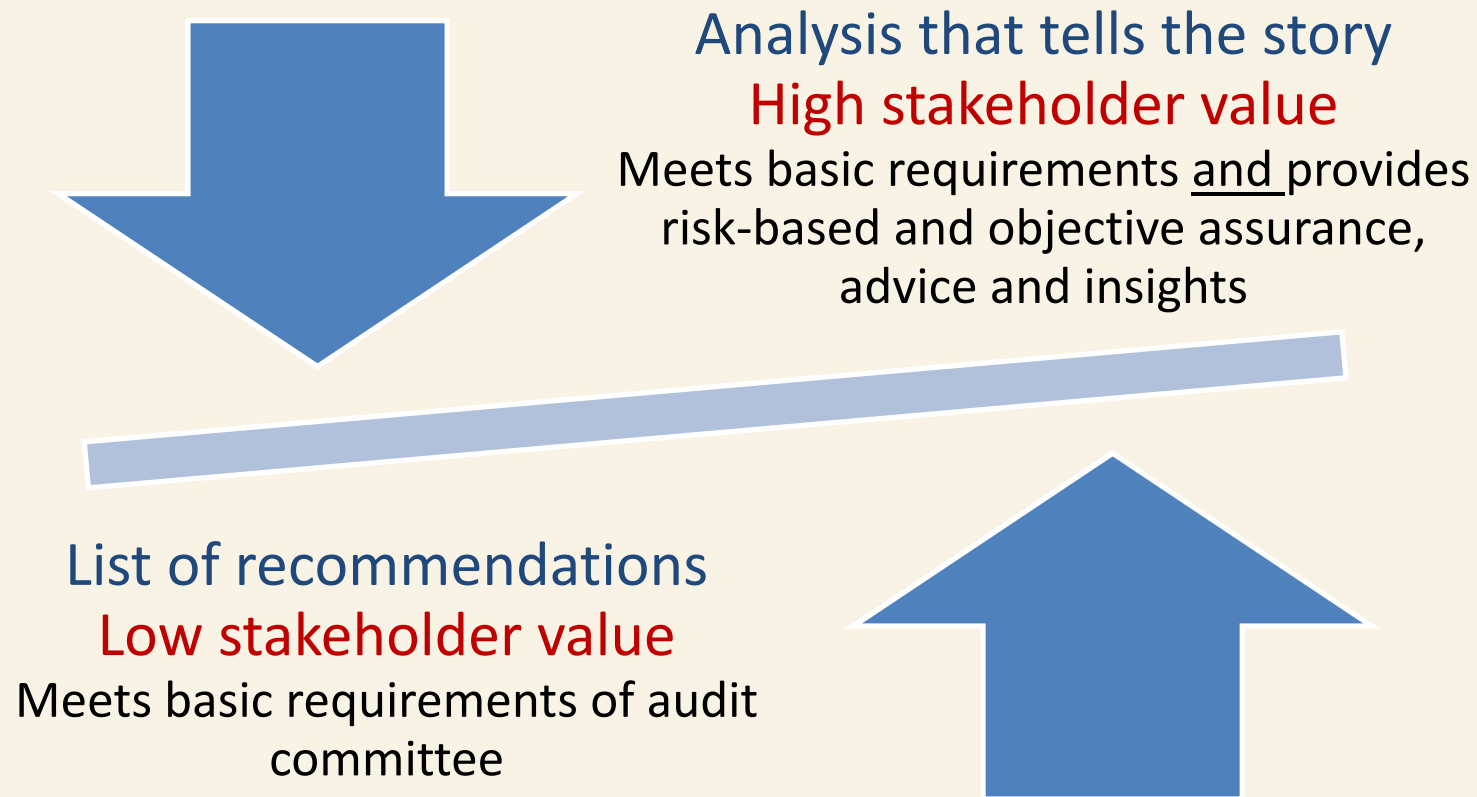
Analysis that tells the story

- Opinion on management's overall level of commitment to addressing agreed audit recommendations

- Commentary on 'at risk' recommendations (original / revised targeted completion dates and comments on action in train)

- Trends (several years) of actions opened, closed, overdue, and total number of actions currently open

- Trends and / graphs on recommendations being raised applied against different business risk categories

- Graphs illustrating overdue recommendations s by - Risk ratings; Ageing; Business area

⭐ Action Points

- Internal audit database to log audit recommendations and monitor progress (spreadsheet format or automated system)

- Periodic updates from management to monitor progress on implementation of management action plans

- CAE undertakes appropriate analysis of the status of all audit recommendations ('at risk'; trends; graphs)

- Internal audit undertakes periodic independent follow-up of higher priority recommendations and obtains evidence

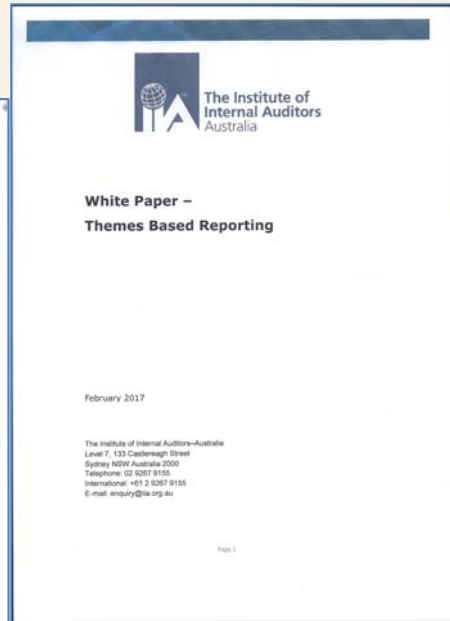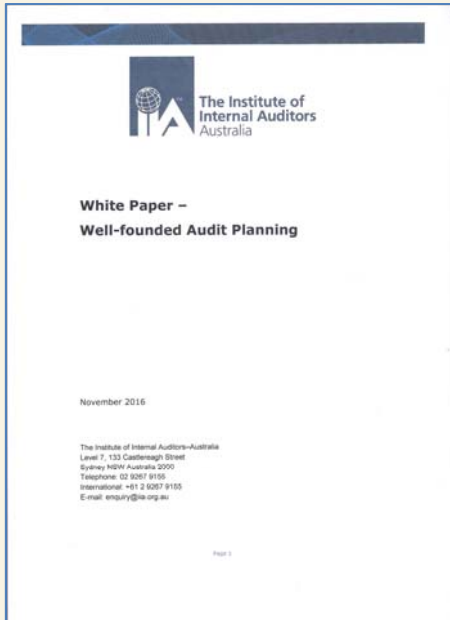- The CAE produces a report to the audit committee providing analysis that tells the story

⭐ Resources
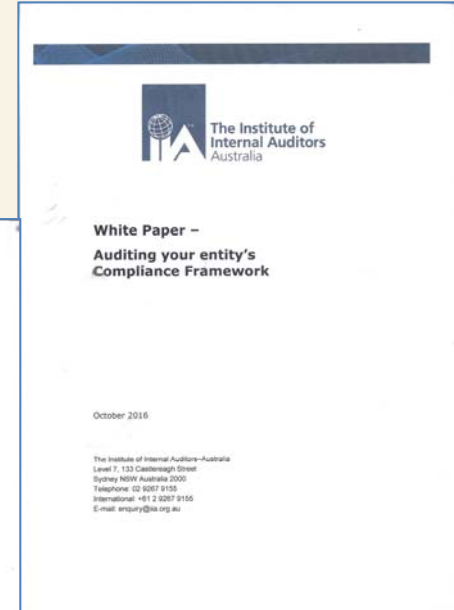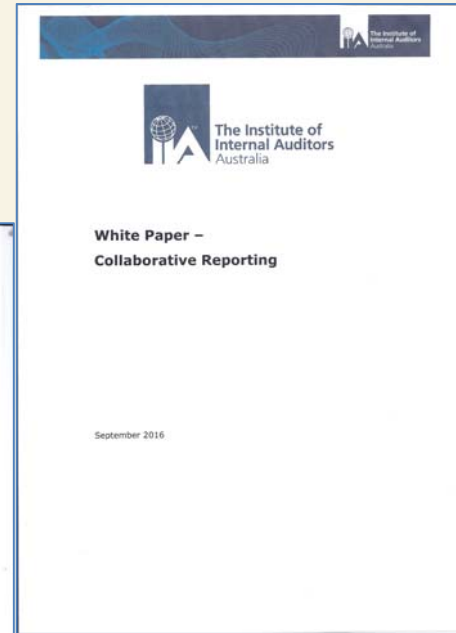
Session Recap and Closing

POSITIONING FOR FUTURE SUCCESS

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⭐ Key Take-outs

- Establish a formal stakeholder relationship program
- Achieve full alignment with the strategic plan of organisation
- Provide end-to-end alignment between an auditor's goals, internal audit's objectives, and organisation's strategic objectives
- Aim to deliver greater value through
  - Well-founded audit planning
  - Higher-level reviews such as auditing the compliance framework
  - Themes-based reporting
  - Collaborative reporting
  - Meaningful reporting on the follow-up of recommendations