STRONGER COLLABORATION WITH STAKEHOLDERS

A ‘Stakeholder’ is a person with an interest or concern in something, in this context the internal audit function.
Delivering stakeholder value

Bruce Turner AM
CGAP, CRMA, CISA, CFE, PFI, FII, FIPA, FFA, FAIM, MAICD, JP
Board Member and Audit Committee Chairman IIA-Australia, Sydney
“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)
With internal audit playing a unique role in the organisation, they work with a range of stakeholders in the organisation.

BRINGING IT ALL TOGETHER
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
What’s in it for you

Stories and Facts

Fresh Ideas & Insights

Audience Questions

Action points for you to consider

Information on FREE reference resources

The Institute of Internal Auditors Fiji
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)
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.”
★ 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)
Effective internal auditors are closely related to their knowledge of the organisation’s mission, strategy, objectives and risks.

**PART 1**

**RISING TO THE CHALLENGES**
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.”

Source: The Changing Role of IA: Keeping Watch for the Board, IIA Singapore, May 2014
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.
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):
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
- Understand how your work ultimately helps the government to deliver its commitments
- Speak with CEO, Board, executive in terms of impacts to strategy
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
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.
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

<table>
<thead>
<tr>
<th>Influence</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Collaborate: maintain confidence</td>
</tr>
<tr>
<td>Low</td>
<td>Monitor and Inform</td>
</tr>
<tr>
<td></td>
<td>Critical Stakeholders: most significant and influential relationships</td>
</tr>
<tr>
<td></td>
<td>Professional Liaison</td>
</tr>
</tbody>
</table>

**Impact**

- Low
- High
# Stakeholder relationship chart

<table>
<thead>
<tr>
<th>Influence</th>
<th>Impact</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td></td>
<td>Collaborate: maintain confidence</td>
</tr>
<tr>
<td>Low</td>
<td></td>
<td>Monitor and Inform</td>
</tr>
</tbody>
</table>

- **Critical Stakeholders:** most significant and influential relationships
- **Professional Liaison**

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*The Institute of Internal Auditors Fiji*
## Example of stakeholder prioritisation

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

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Importance of Relationship</th>
<th>Interests / Needs of the stakeholder</th>
<th>Staff Responsible</th>
<th>Frequency</th>
<th>How and What provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>Powerful as a key champion</td>
<td>High level and significant issues that relate to achievement of strategic priorities of the entity</td>
<td>CAE</td>
<td>Formal Quarterly scheduled meetings</td>
<td>Timely advice and insights</td>
</tr>
<tr>
<td>Chair – Audit Committee</td>
<td>Critical as the CAE reports functionally to this role</td>
<td>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</td>
<td>CAE</td>
<td>Monthly discussions Scheduled audit committee In camera sessions as part of all audit committee meetings As required</td>
<td>Formal audit committee meetings Scheduled off line discussions</td>
</tr>
</tbody>
</table>
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

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

Core principle
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
  - provide meaningful assurance, advice, insights

Source of exhibits 5, 3 and 7

Core principle

Mission
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**
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

- Fully aligned or almost fully aligned: 57%
- Somewhat aligned: 35%
- Minimally aligned or not aligned: 8%

*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.*
End-to-end alignment

Exhibit 3  Individual Goals Contributing to Strategic Objectives

- Auditors’ Individual Goals
- Organization’s Strategic Objectives
- Internal Audits’ Mission & Objectives
<table>
<thead>
<tr>
<th>Balanced Scorecard Element</th>
<th>Examples of Departmental Key Performance Indicators (KPIs)</th>
<th>Measure Type</th>
<th>Applicability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partnering with the audit committee</td>
<td>Audit committee expectations met</td>
<td>Qualitative</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Percentage of audit plan complete</td>
<td>Quantitative</td>
<td>Yes for own team</td>
</tr>
<tr>
<td>Supporting executive and senior management</td>
<td>Client satisfaction goals — value added</td>
<td>Qualitative</td>
<td>Yes for own team</td>
</tr>
<tr>
<td></td>
<td>Client satisfaction goals — usefulness of recommendations</td>
<td>Qualitative</td>
<td>Yes for own team</td>
</tr>
<tr>
<td></td>
<td>Cycle times (duration period of audits)</td>
<td>Quantitative</td>
<td>Yes for own team</td>
</tr>
<tr>
<td>Managing Internal audit processes</td>
<td>Performance against the internal audit financial budget</td>
<td>Quantitative</td>
<td>Applies to CAE</td>
</tr>
<tr>
<td></td>
<td>Maintain current internal audit charter, intranet, audit manual</td>
<td>Qualitative</td>
<td>Applies to CAE</td>
</tr>
<tr>
<td></td>
<td>Budget to actual audit times</td>
<td>Quantitative</td>
<td>Yes for own team</td>
</tr>
<tr>
<td></td>
<td>Conformance with quality assurance and improvement standards (based on internal and external quality assessments)</td>
<td>Qualitative</td>
<td>Yes for own team</td>
</tr>
<tr>
<td>Managing Internal auditors and their development</td>
<td>Internal auditor workforce satisfaction</td>
<td>Qualitative</td>
<td>Yes for own team</td>
</tr>
<tr>
<td></td>
<td>Compilation of initiatives in professional development plan</td>
<td>Quantitative</td>
<td>Yes for own team</td>
</tr>
<tr>
<td></td>
<td>Optimizing utilization of internal audit resources (to conduct audits while minimizing &quot;administration&quot;)</td>
<td>Quantitative</td>
<td>Yes for own team</td>
</tr>
</tbody>
</table>
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

Level 5: Optimizing
- IA learning from inside and outside the organization for continuous improvement

Level 4: Managed
- IA integrates information from across organization to improve governance and risk management

Level 3: Integrated
- IA management and professional practices uniformly applied

Level 2: Infrastructure
- Sustainable and repeatable IA practices and procedures

Level 1: Initial
- No sustainable, repeatable capabilities – dependent upon individual efforts

Internal Audit Capability Model (IA-CM)
⭐ Action Points & Resources

- Structured stakeholder relationship plan helps internal audit to *close the gap* by achieving full 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
Distinct audit phases

- Planning
- Execution
- Reporting
- Follow-up
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
• 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.

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

• Detailed work plan that lists the procedures to be followed to achieve the objectives of the engagement plan.
The three pillars of audit planning provide a ‘menu’ of potential audits (audit universe)

<table>
<thead>
<tr>
<th>Consultation</th>
<th>Analysis</th>
<th>Research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discussions with audit committee</td>
<td>Entity’s strategy</td>
<td>Global hotspots: business risk</td>
</tr>
<tr>
<td>Discussions with CEO</td>
<td>Entity’s business objectives</td>
<td>Industry developments</td>
</tr>
<tr>
<td>Discussions with management</td>
<td>Entity’s risk appetite statement</td>
<td>Environmental scan</td>
</tr>
<tr>
<td>Dialogue with business heads</td>
<td>Enterprise risk assessment</td>
<td>Business drivers and pressures</td>
</tr>
<tr>
<td>Needs of audit committee chair</td>
<td>Business unit risk assessments</td>
<td>Changes in government policy</td>
</tr>
<tr>
<td>Requests from external auditors</td>
<td>Compliance requirements</td>
<td>Changes in auditing standards</td>
</tr>
<tr>
<td>Requests from regulators</td>
<td>Regulatory requirements</td>
<td>Auditing tools and techniques</td>
</tr>
<tr>
<td>Dialogue with management</td>
<td>Systems under development</td>
<td>Comparative GAIN data</td>
</tr>
<tr>
<td>Entity’s risk appetite statement</td>
<td>Results of external audit</td>
<td>Audit committee publications</td>
</tr>
<tr>
<td>Enterprise risk assessment</td>
<td>Prior year audit plan</td>
<td>Internal Audit Foundation</td>
</tr>
<tr>
<td>Business unit risk assessments</td>
<td>Fraud control plan</td>
<td>Emerging fraud risks</td>
</tr>
<tr>
<td>Compliance requirements</td>
<td>Data on investigation outcomes</td>
<td>External trends in corruption</td>
</tr>
<tr>
<td>Regulatory requirements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Systems under development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Results of external audit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior year audit plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraud control plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data on investigation outcomes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Focus: Internal and external

Focus: Internal

Focus: External
Planning – global hotspots

- Geopolitics
- Governance
- Corporate culture
- Compliance
- Working environment
- Managing next generation
- Cyber-security
- Fraud and corruption
- Trusted advisor
- Transformation
Global hotspot topics can be split

Governance has many different lenses ... including key stakeholder management
🌟 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
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 (e.g., 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

<table>
<thead>
<tr>
<th>Foundation</th>
<th>Positioning for Success</th>
<th>Mature Practice</th>
</tr>
</thead>
</table>

### Potential Internal Audit Activities

<table>
<thead>
<tr>
<th>Compliance governance</th>
<th>Compliance framework (overall)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central regulatory coordination</td>
<td>Compliance committee meetings</td>
</tr>
<tr>
<td>Compliance activities (micro-level ‘bits and pieces’)</td>
<td></td>
</tr>
</tbody>
</table>

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*The Institute of Internal Auditors Fiji*
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
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**
- Entity’s strategic / statutory objectives.
- Business identity.
- Entity’s risk profile and emerging risks.
- Critical business drivers and changes.

**Secondary Elements**
- Economic and operating environments.
- Regulatory obligations.
- Global connectivity.
- Emerging technologies.
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.
★ 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
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.
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
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

IIA Fiji Annual Conference – May 2017
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