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White Paper

Well-founded Audit Planning

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Contents

Background	2
- Purpose	2
- Background	2
Discussion	3
- Issue	3
- History	4
- Five Action Steps	5
Conclusion	6
- Summary and Options	6
- Conclusion	6
Bibliography and References	6
- Bibliography	6
- References	6
Purpose of White Papers	7
Author's Biography	7
About the Institute of Internal Auditors–Australia	7
Copyright	7
Disclaimer	7

Background

Purpose

Internal auditors play a key role in enhancing and protecting organisational value and helping organisations 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 that feed into individual engagement plans.

Background

Management is looking for internal audits that help them to reduce risk (where appropriate), improve the business, and be assured that appropriate governance, risk management and control arrangements are in place and working effectively. They expect the Chief Audit Executives (CAE) to drive a program of audits that are relevant to them, timely, and genuinely add value. They also expect the CAE to ensure that the internal audit team delivers the forward audit plan on time as promised.

In the past, CAEs developed annual and longer term audit plans (three and / or five year) on a 'cyclical' basis, with audit topics identified within resourcing availability on a functional basis from historical information. This approach used a set of one-dimensional risk factors, was often done in isolation of the business, and assumed a relatively static organisation. The correlation between risk rankings and the audit plan was often weak.

Contemporary audit planning requires the CAE to identify audit topics on a strategic, cross-organisational and functional basis, drawing on enterprise risk management information. The forward audit plan needs to be developed in consultation with the business to provide timely, relevant, responsive and risk-based coverage, with the integration of internal audit with risk management and strategic planning. Whilst most audit topics in the forward audit plan are focused on assurance, there is increasing provision for consulting (or advisory) topics.

The forward audit plan is usually approved by the audit committee, and the audit committee typically requires a covering business paper that convincingly articulates the robustness of the planning effort, through the three pillars of consultation, analysis and research.

This white paper is intended to aid with a) developing well-founded audit plans and b) structuring the business papers and communication needed to convince stakeholders to adopt those plans.

In terms of professional auditing standards:

- The CAE is required to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals (standard 2010). The plan must be based on a documented risk assessment; undertaken at least annually; recognising the input and expectations of senior management, the board and other stakeholders; and may include both assurance and consulting engagements (standards 2010.A1, 2010.A2, and 2010.C1).
- The CAE must also ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan (standard 2030).
- Internal auditors are required to develop and document a plan for each engagement, including the objectives, scope, timing and resource allocations (standard 2200).

Well-founded Audit Planning

This white paper focuses on the risk-based forward audit plan (as illustrated in Exhibit 1), noting that separate planning is required both at the engagement level and to ensure the capability of the people undertaking these audits.

Note 1:

Once the forward audit plan has been established and disseminated, the CAE will need to monitor progress and report the status to the audit committee each quarter. Ideally the related Key Performance Indicators (KPI) will also be reported to the audit committee progressively through the year as part of a Balanced Scorecard Report.

Examples of typical KPIs related to the delivery of the forward audit plan include:

Quantitative	Qualitative
- Percentage of audit plan complete. - Cycle times (duration period of audits). - Budget to actual audit times.	- Audit committee expectations met. - Client satisfaction – value added. - Client satisfaction –useful recommendations.

Exhibit 1 – Layers of Internal Audit Plans

↓	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.

Note 2:

In terms of capability planning, the 2016 CBOK report *GREAT Ways to Motivate Your Staff* recognises that leading CAEs shape a motivated and highly productive internal audit workforce that delivers value to the business.

The report comments that internal auditors are in a much more effective position to help an organisation accomplish its objectives when their personal performance goals and objectives align to the mission and objectives of the internal audit department, which in turn is aligned with the strategic direction of the organisation.

The report draws on a range of research data to deliver practical planning frameworks for internal audit resourcing (including workforce, competency and professional development plans) and related development and motivation strategies (including talent management and employee engagement models).

Discussion

Issue

According to the Global Internal Audit Common Body of Knowledge (CBOK) study undertaken in 2015 by the IIA Research Foundation:

- More Australian audit departments report being fully or almost fully aligned with the strategic plan of their organisation than their global counterparts (62% in Australia, compared to the global average of 57%).
- Australian CAEs draw in greater consultation and analysis as a resource in establishing their audit plans compared to global counterparts, notably:
 - Risk-based methodology 100% (global 85%)
 - Requests from audit committee 87% (global 56%)
 - Requests from management 85% (global 72%)
 - Analysis of organisation’s strategy or business objectives 79% (global 64%)
 - Consultations with divisional or business heads 79% (global 62%)
 - Previous year’s audit plan 79% (global 61%)
- A much smaller proportion of Australian and global CAEs report using research as a resource in establishing their audit plans (less than 10%).

Note 3:

The global statistics cited above are taken from the CBOK report *GREAT Ways to Motivate Your Staff*⁽⁶⁾ published in March 2016. The Australian statistics were obtained by IIA- Australia and presented at the South Pacific and Asia Conference (SOPAC) in 2016.

CAEs in Australia face three key challenges in delivering a contemporary risk-based plan:

1. Achieving full alignment with the organisation’s goals (standard 2010) will require greater analysis of the strategic plan of their organisation.
2. Determining sufficient audit breadth will require an expanded range of consultation and analysis.
3. Credible forward audit plans will require greater utilisation of local and global research on emerging risks and issues as a key resource in audit planning.

Well-founded Audit Planning

History

Boards, audit committees and management are increasingly recognising the need to nurture ‘best in class’ internal audit functions in response to rapid business changes, global connectivity, emerging technologies, and increasingly complex economic, regulatory and operating environments.

Contemporary literature suggests that ‘best in class’ internal audit functions reflect five common features, and these are illustrated in Exhibit 2.

Exhibit 2 - Five Features of ‘Best in Class’ Internal Audit Functions



Of these, the foundations for audit planning draw mostly on the ‘audit breadth’ and ‘audit planning’ features. Examples are included in Exhibit 3.

Exhibit 3 – Examples of Key Features of ‘Best in Class’ Audit Planning and Audit

Audit Planning	Audit Breadth
<ul style="list-style-type: none"> - Consultation, analysis and research. - Risk assessment, prioritisation and integration. - Assurance mapping. - Audit workforce and competency. - Adaptive planning. - Continuous monitoring. - Blend of assurance and consulting work. 	<ul style="list-style-type: none"> - ICT assurance including cyber risks. - Fraud management including conflicts of interest. - Governance, risk and compliance frameworks. - Financial stewardship. - Strategic risk assurance. - Operational audit. - Assessment of organisational culture.

The covering business paper to the audit committee can be most effective when it convincingly articulates the robustness of the planning effort by providing an overview of the planning process, including the consultation, analysis and research that underpins the forward audit plan. Exhibit 4 shows examples of internal and external focus areas.

Exhibit 4 – Examples of Consultation, Analysis and Research in Forward Audit Planning

Forward Audit Plan		
Prioritise ‘menu of audits’ using suitable risk prioritiser model		
<ul style="list-style-type: none"> Discussions with audit committee Discussions with CEO Discussions with management Dialogue with business heads 	<ul style="list-style-type: none"> Entity’s strategy Entity’s business objectives Entity’s risk appetite statement Enterprise risk assessment 	<ul style="list-style-type: none"> Global hotspots: business risk Industry developments Environmental scan
<ul style="list-style-type: none"> Needs of audit committee chair Requests from external auditors Requests from regulators 	<ul style="list-style-type: none"> Business unit risk assessments Compliance requirements Regulatory requirements Systems under development 	<ul style="list-style-type: none"> Business drivers and pressures Changes in government policy Changes in auditing standards Auditing tools and techniques Comparative GAIN data
<ul style="list-style-type: none"> Dialogue with other stakeholders Dialogue with other CAEs 	<ul style="list-style-type: none"> Results of external audit Prior year audit plan Fraud control plan 	<ul style="list-style-type: none"> Audit committee publications Internal Audit Foundation Emerging fraud risks External trends in corruption
<ul style="list-style-type: none"> Facilitated planning workshops Input from internal audit team Insights of governance specialists 	<ul style="list-style-type: none"> Data on investigation outcomes Complaints trends and insights 	
Focus: Internal and external	Focus: Internal	Focus: External

Because the audit universe is typically much bigger than the resources available to complete the forward audit plan, some CAEs utilise a risk prioritiser model to provide a more scientific basis to the audit topics included in the forward audit plan.

The risk prioritiser model also allows the CAE to highlight to the Board, audit committee, and management the ‘below the line’ potential audit topics that cannot be completed within existing resources. That allows the decision-makers to assess the reasonableness of audit resources and budget (typically a role for audit committees under their charter, in consultation with the chief executive).

Common elements of a risk prioritiser model are contained in Exhibit 5. The model can be tailored for each organisation, as each potential audit topic is scored against each distinct element, weightings can be applied according to the strategic priorities of the organisation, and the higher overall scores (after a ‘reasonableness check’ by the CAE or delegate) indicate the audit topics to include in the forward audit plan.

Well-founded Audit Planning

Exhibit 5 – Example of Common Elements of Risk Prioritiser Models

Business Activity	Stakeholder Engagement	Enabling Capabilities	External Threats	Other Factors
- Complexity - Importance - Tone at top - Legal and regulatory oversight	- Reputational impact - Supplier engagement - Client engagement - Government engagement	- Importance of technology - Staffing - Financial management - Volume of transactions	- Economic climate - Security breaches - Cybercrime - Business continuity	- Time since last audit - Extent of change

It is often beneficial for medium and larger sized internal audit functions to divide the audit topics into distinct audit themes; this might translate into five to ten themes respectively. In addition to reporting on the outcomes of individual audits each quarter, the CAE is well-positioned to deliver to the audit committee the high-level themes-based insights in an annual report on internal audit outcomes. This is an emerging approach to further adding value to the business. An example of the themes used in a large internal audit function is contained in Exhibit 6.

Exhibit 6 – Example of Audit Themes

- Core business activities	- Fraud, corruption and culture
- Business and technology change	- Financial stewardship
- Security and privacy	- Strategic reviews
- Contract and outsourcing management	- Management information
- Overheads management	- Assurance activities

Five Action Steps

Establishing a well-founded forward audit plan can be achieved where the CAE implements the following action steps.

- Establish a structured audit planning process that:
 - Achieves full alignment with the organisation's goals through meaningful analysis of the organisation's strategic plan.
 - Delivers sufficient audit breadth through a comprehensive range of consultation and analysis.
 - Utilises local and global research to consider emerging risks and issues.
 - Gains approval and support through convincing explanation and engagement.
- Identify potential audit topics by:
 - Developing the plan in consultation with the business to provide timely, relevant, responsive and risk-based coverage.
 - Drawing on enterprise risk management information.
 - Identifying audit topics on a strategic, cross-organisational and functional basis.
 - Achieving integration of internal audit with risk management and strategic planning.
 - Providing a reasonable blend of audit topics between assurance and consulting (or advisory) activities.
 - Acknowledging the capability and resources of the audit team.
- Produce a well-considered draft forward audit plan that:
 - Prioritises the potential audit topics utilising a suitable risk prioritiser model.
 - Reflects a 'reasonableness check' undertaken by the CAE, ideally in consultation with the Chief Executive and the audit committee chair.
 - Consolidates the planned audit topics with (for each):
 - a unique audit number, audit topic, prioritisation, related organisational strategies, high-level risks, proposed coverage, broad objective and scope, related audit theme, likely timing, and budget hours / days.
 - Assigns each audit topic against a defined audit theme (for medium and large internal audit functions).
- Prepare a convincing covering business paper containing:
 - An overview of the audit planning process.
 - Details of the three pillars of consultation, analysis and research that underpin the forward audit plan.
 - Analysis of the audit coverage by business units, generic risk areas, and across the defined audit themes (include graphs where possible).
 - Information on areas about which the audit committee might seek clarification, including budget funding (anticipate audit committee needs).
 - Potential topics that could be added with increased capability or resources.
 - A recommendation to approve the draft forward audit plan.
- Disseminate the approved forward audit plan to key stakeholders. For instance:
 - Share the plan with the internal audit team at a whole-of-staff staff meeting (or video-conference if multi-site function), and discuss the key priorities and measures for

Well-founded Audit Planning

the year ahead.

- Send a copy of the plan to key executives under a covering letter from the CAE, and use the opportunity to remind them of the internal audit mandate and initiate preliminary arrangements for the initial series of audits (the next few months).
- Send a copy of the plan to external stakeholders such as the external auditors.
- Provide FAQs that explain the foundations of the forward audit plan.
- Provide a copy for wider reference purposes on the organisation's intranet site.

Conclusion

Summary and Options

It is a requirement under professional auditing standards for internal auditors to plan their program of work. But it is also good business practice to invest sufficient time and effort in audit planning, as the organisation's Board and management are constantly looking for better options for deriving value from all business and governance units.

Effective audit planning helps to ensure that the right areas are covered, by the right people, with the right tools and techniques, at the right time. This requires alignment with the organisation's goals, coupled with meaningful consultation, analysis and research.

Determining a menu of potential audits is a critical first step. The use of a risk prioritiser model helps to fine-tune the overall coverage on a more structured basis.

Establishing audit themes during the development of the forward audit plans is an emerging value-adding approach that helps the CAE to deliver high-level themes-based insights in an annual report on internal audit outcomes.

Conclusion

The mission of professional internal auditing is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insights.

A well-founded forward audit plan, based on consultation, analysis and research underpins the achievement of this mission and provides the right direction for internal audit to add value and improve an organisation's operations.

Bibliography and References

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Well-founded Audit Planning

Purpose of White Papers

A White Paper is an authoritative report or guide that informs readers concisely about a complex issue and presents the issuing body's philosophy on the matter. It is meant to help readers understand an issue, solve a problem, or make a decision.

Author's Biography

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Bruce has been a member of the IIA since 1984 and was an IIA-Australia Board Director from 2012 to 2018. He spent nearly 30 years within the financial services sector, which included extensive internal auditing responsibilities in Australia, United States and United Kingdom spanning commercial banking, merchant banking and central banking. He ultimately held CAE roles at the State Rail Authority of NSW, Integral Energy Australia, and the Australian Taxation Office. He is currently a company director and audit committee chairman.

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About the Institute of Internal Auditors–Australia

The Institute of Internal Auditors (IIA) is the global professional association for Internal Auditors, with global headquarters in the USA and affiliated Institutes and Chapters throughout the world including Australia.

As the chief advocate of the Internal Audit profession, the IIA serves as the profession's international standard-setter, sole provider of globally accepted internal auditing certifications, and principal researcher and educator.

The IIA sets the bar for Internal Audit integrity and professionalism around the world with its 'International Professional Practices Framework' (IPPF), a collection of guidance that includes the 'International Standards for the Professional Practice of Internal Auditing' and the 'Code of Ethics'.

IIA–Australia ensures its members and the profession as a whole are well-represented with decision-makers and influencers, and is extensively represented on a number of global committees and prominent working groups in Australia and internationally.

The IIA was established in 1941 and now has more than 200,000 members from 190 countries with hundreds of local area Chapters. Generally, members work in internal auditing, risk management, governance, internal control, information

technology audit, education, and security.

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