



## Internal Audit and Strategy

By ERIC LIM and TENG HUI YUN

In an increasingly complex, more connected and uncertain business environment, strategy matters more than ever. Most iconic companies actively review their strategy to be ahead of the curve to maintain their relevance and not let complacency sets in, exposing themselves to risks that can lead to potential business failure.

There are various reasons that contribute to strategic failure. Some of which arise from making unsound business decisions, ineffective processes to mitigate risks, misallocation of resources and/or slow to respond appropriately to changes in the business environment.

In the updated Committee of Sponsoring Organisations of the Treadway Commission (COSO) Enterprise Risk Management (ERM) – Integrated Framework, it anticipates and recognizes the increasing importance of the role of the Chief Audit Executive (CAE) and internal audit (IA) in helping to guide strategy. The draft offers a different perspective on ways to view risk in setting, alignment and execution of strategy.

### **What is IA's role in strategy?**

With effect from January 2017, the newly revised [International Professional Practices Framework \(IPPF\)](#) provides clarity with regard to various

Performance Standards on the topic of “strategy”. An IA activity is considered to be effectively managed when it considers strategies in addition to objectives and risks.<sup>1</sup> It states that from the planning stage, as the CAE develops his audit plan, he has the responsibility to consult with his senior management and the board to understand the organisation’s strategies, key business objectives, associated risks, and risk management processes.<sup>2</sup> This is supported by a [Global Survey](#)<sup>3</sup>, where 57% of internal auditors stated that their audit plans are aligned with the strategic plans of their organisations. Besides, IA too has the responsibility to assess and make appropriate recommendations to improve the organisation’s governance processes for making strategic and operational decisions.<sup>4</sup> Lastly, when an overall opinion is issued by IA, his or her opinion must take into account the strategies, objectives, and risks of the organisation.<sup>5</sup> This is consistent with the [Global Survey results](#)<sup>6</sup>, in which 2 out of 3 board members believed that IA should have a more active role in assessing and evaluating the organisation’s strategic risks.

On strategic risks, the [2016 CBOK Stakeholder Report](#)<sup>7</sup> suggested the avenues for IA to improve its role include:

- Focusing on strategic risks during audit projects
- Evaluating and communicating key risks
- Evaluating execution of strategic initiatives
- Assessing reliability of metrics used to monitor strategic initiatives.

<sup>1</sup> Performance Standards 2000 – “Managing the IA activity”

<sup>2</sup> Performance Standards 2010 – “Planning”

<sup>3</sup> 2015 Common Body of Knowledge (CBOK) Practitioner Report entitled “Driving Success in a Changing World” by Larry Harrington and Arthur Piper

<sup>4</sup> Performance Standards 2110 – “Governance”

<sup>5</sup> Performance Standards 2450 – “Overall opinions”

<sup>6</sup> 2016 CBOK Stakeholder Report entitled “Six Audit Committee Imperatives – Enabling IA to Make a Difference” by Jim DeLoach and Charlotta Löfstrand Hjelm

<sup>7</sup> 2016 CBOK Stakeholder Report entitled “Voice of the Customer – Stakeholders’ Messages for Internal Audit” by Angela Witzany and Larry Harrington



In summary, one of the Core Principles of the Professional Practice of Internal Auditing (mandatory element of the IPPF) also states that IA should align with the strategies, objectives and risks of the organisations. The Core Principles, taken as a whole, articulates IA effectiveness. Therefore, it is interpreted that an effective IA should be aligned with the strategies of the organisation.

### **Positioning as a Strategic Internal Auditor**

In the Research Report<sup>8</sup> by Dr. Paul L. Walker, entitled “Become a Strategic Internal Auditor – Tying Risk to Strategy”, Dr. Walker wrote about strategic initiatives and internal audit in organisations.

Based on numerous case studies of IA leaders who are known for their strategic involvement in their organisations, he shared some key findings on where, when, and how internal auditors are playing a role in strategic initiatives.

The key findings include:

- Internal audit to be involved with more strategic initiatives by staying connected to the business, with the ultimate aim of becoming a business advisor or risk partner.
- By being more proactive and getting involved earlier in the strategy journey of the organisation, greater value can be derived.
- By using ERM, IA can link ERM to strategy and use it to have more consistent

discussion with the management and the board.

- When IA is involved in leading-edge risk assessments in areas such as culture, the control environment, social media, or mergers, it gains valuable knowledge for the organisation’s future strategic initiatives.
- Internal auditors may find that new skill sets and additional training are necessary to engage in the increased emphasis on strategic planning. The training could be in strategy, risk and consulting.

By understanding the organisation’s strategy, and identifying risks that create barriers to the organisation successfully executing its strategy, IA is able to add value to its stakeholders.

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<sup>8</sup> Paul L. Walker, *Become a Strategic Internal Auditor – Tying Risk to Strategy* (Altamonte Springs, FL: The Institute of Internal Auditors Research Foundation, 2014)