

Setting up an internal audit function

Whether you are setting up a new internal audit function or looking to reshape one this will be of interest.

The opportunity to set up or restructure an internal audit (IA) function is a challenge. A chance to go beyond your comfort zone, hone skills and learn something new. We will look at embracing the situation and the key steps involved, including a case study from a chief audit executive (CAE) who did it three times!!!

Is it for you?

Perhaps you've had an EQA, a new audit committee chair has joined or you instinctively know that things need to be different. Restructuring when you are in situ is challenging, relationships have already developed and you will need to be disciplined to 'be the change you want to see' to précis Ghandi. It's your responsibility as CAE to deliver necessary change.

Alternatively there is personal choice. A head hunter approaches you about setting up a new function or taking on a rescue mission. Salary is great, organisation is interesting and you've been in your current job for a while...so why are you not popping the champagne? It's understandable. This is a big project, a serious investment of your energy and reputation; it's not for everyone. But there's a difference between self-awareness of your limits and career fear! Take a moment to imagine that feeling of success in a couple of years.

Do you build relationships quickly and easily? Are you excited by the thought of uncertainty? As a generator of ideas, a shaper, will there be someone to 'do' the doing or are you able to see tasks through yourself? Eyes open...ready to take it on.

Begin at the Beginning

We all know that the interview process is as much about gauging if you want to work with an organisation as it is demonstrating that you are the right person for the job. The interview process will provide invaluable cues to guide the early work of the new CAE.

Recruitment of a CAE does not happen without approval. Prospective CAEs should be asking questions such as. Who proposed to set up an IA function? Why is the incumbent leaving? What budget has been set aside? What is the board's expectation of IA? How has the external audit partner responded to the change?

A little detective work to understand the background of the audit committee, CEO and CFO is time well spent; helping to shape insightful questions into culture and governance.

While incumbent CAEs do not have this luxury, there is always a beginning, a driver for change, a catalyst. Possibly a report, a conversation, an article or conference speech; whatever the impetus if you were not party to it personally find out everything you can about its rationale. As with all the elements of setting up a new function, there are elements that can be adapted for CAEs challenged with restructuring their existing

services and/or team.

Patience

It's always tempting to jump straight into any project but the old adage 'fail to plan, plan to fail' are wise words in the context of setting up an IA function. Former CAE Les Krepa gets a real buzz out of doing this and in sharing his experiences emphasised the importance of taking time to understand the expectations of key stakeholders and getting to know the organisation before doing anything.

Read the case study (setting up an internal audit function) [here](#).

There is no magic formula for how much time is needed but measuring it in weeks not days is a good idea. True auditor discretion is invaluable in the early days, holding your counsel until certain of facts to avoid responding to individual's pet topics or personal agendas.

First conversations and those early weeks are vital for evaluating the true culture of the organisation; is it different to the one espoused? CAEs may also look to gain insight from the questions in the Institute's [board briefing](#) on the topic; more detail can be found in a similar [Global IIA](#) publication.

Holding fire on delivery is a particular challenge for CAEs that are also the audit engagement resource; without planning however there is a risk of not being effective.

Alignment

The Institute advocates CAEs building powerful relationships with management and governance leaders. This builds common understanding of the role of IA and its value. CAEs are the frontline of the profession, interacting with audit committees plus current and future business leaders; with this comes a duty to ensure alignment with latest thinking such as auditing strategy and culture, using data analytics and the concept of trusted advisor rather than policeman.

This is relevant for any CAE new in role. Misalignment creates a barrier to optimising the value of internal audit. Sharing the [core principles](#) is a useful exercise as they clearly articulate in non-technical language what effective IA looks like. IIA Global will be issuing guidance detailing how to demonstrate embedding of the principles so look out for them.

Core Principles

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organisation.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement.

Without question the **IA charter** in addition to clarifying the IA remit must also represent a partnership between the audit committee and IA. CAEs new in role have a window of opportunity before being complicit with ineffective ways of working. Likewise changes to existing functions should also start with redefining the charter.

Developing alliances and changing mind-sets to appreciate the value of IA at executive level also has a positive influence on culture. Achieving this should not be underestimated. CAEs may wish to draw on the lessons of change management programmes;

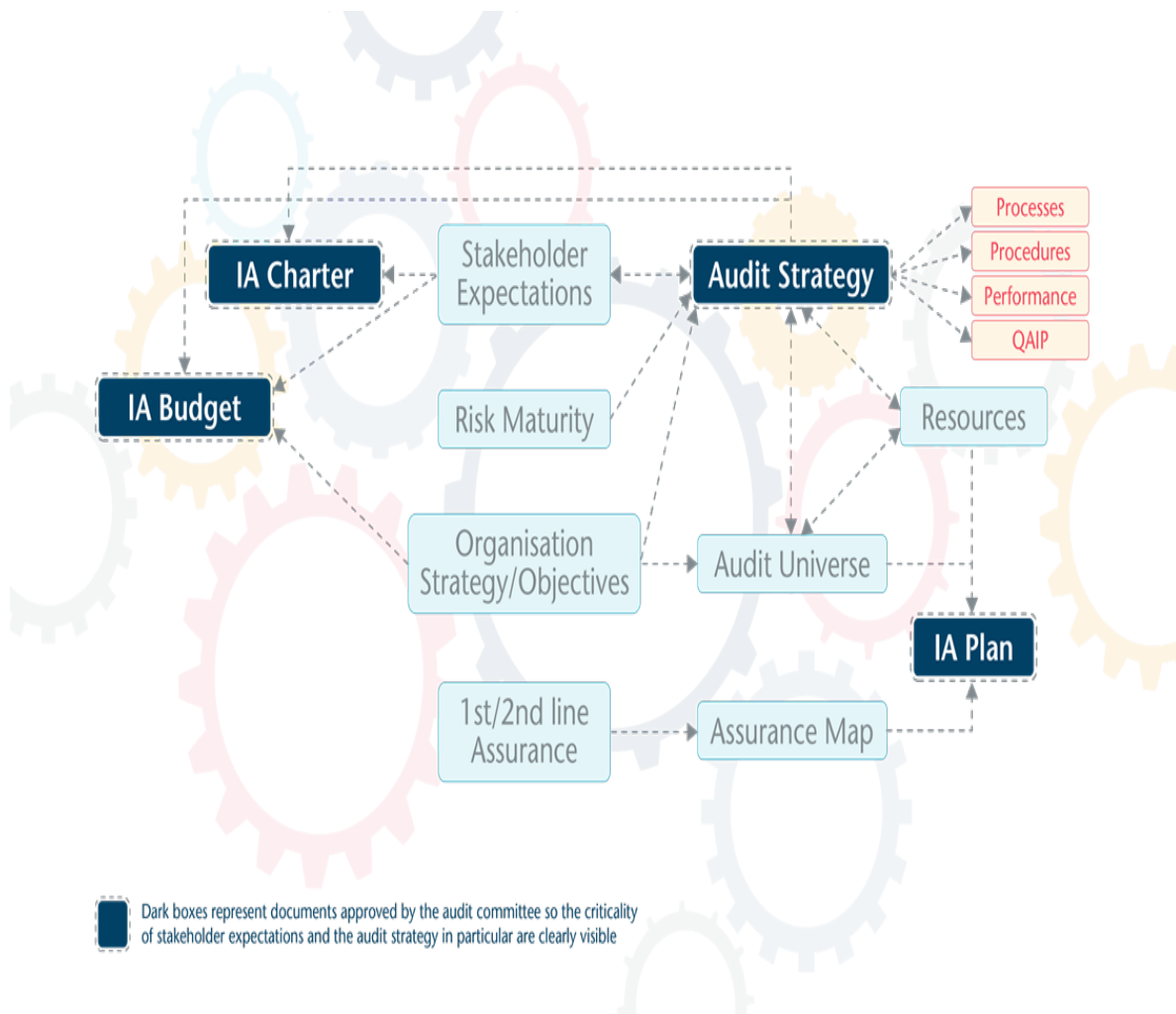
- Be authentic, people will not believe it if you're not consistent in words and actions
- Address their emotions, make a direct connection with them
- Keep repeating the message in different ways, make it engaging and inspiring
- Prepare an 'elevator pitch' have a short memorable story about IA ready at any time
- Maintain relevance, focus on what's in it for them not for you or the team

Think about using vlogs, breakfast briefings, brown bag lunches, ask for input using a collaborative tool or for formal meetings consider some of the Powerpoint alternatives such as Prezzi and VideoScribe; be immersive and use the digital technology available to make it exciting.

Creating a roadmap

Sharing a high-level overview of what should be expected by when is beneficial for stakeholders and helps with alignment to the CAE vision.

At a more detailed level, the to-do list can be daunting and the Institute has produced practical **guidance** for CAEs including a checklist. The connection between the activities cannot be overlooked and can help with staying on track when under pressure.



The shaded boxes represent documents approved by the audit committee so the criticality of stakeholder expectations and the audit strategy in particular are clearly visible.

A strategy that aligns IA to the organisations strategy, although not a pre-requisite is invaluable; would you expect your organisation to operate without one? It clarifies expectations, sets a foundation for consistent communications together with providing a goal for objectives and performance. This is not to be confused with a strategic audit plan.

Guidance is available on preparing a strategy and CAEs should also challenge their own thinking by referring to the IIA Global **process maturity model**.

Do tools such as audit software and data analytics form part of the start-up process or future developments? Will you offer consultancy/advisory services from day one or establish assurance first? Is the budget better spent on co-sourcing, in-sourcing or outsourcing?

Strategies are about direction. They can change. There might be organisational factors that make it efficient to have the majority of engagements performed by co-source staff during start-up; this doesn't mean it has to be the long-term strategy.

Closing Thoughts

CAEs are the architect of assurance within their organisation and to be able to begin this journey from the laying of the foundations is a privilege few have the opportunity to enjoy. Good internal audit functions do not evolve they are designed. They are built from a unique combination of stakeholder relationships, operating practices and skilled resource.

The best way to predict the future is to create it
Peter Drucker