



## Essential KPIs for the 2020s



Internal audit is outcome-driven: advising on emerging risk, promoting behavioural change and informing strategic decisions. Yet it's commonplace for performance measures to focus on task.

Changes forced upon CAEs and their organisations in 2020 due to the coronavirus pandemic have transformed the way in which many of us work. Now is a good time to think about performance measures that better reflect the critical role that internal audit has within your organisation.

Join us as we take a look at the typical performance measures used by audit leaders and ask if there are better ways to report on the value stakeholders obtain from internal audit.

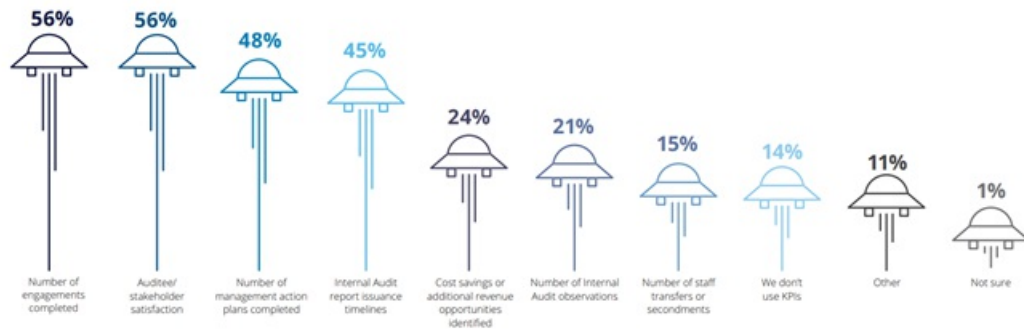
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## Typical KPIs

Most audit leaders use KPIs: engagements completed, stakeholder satisfaction, management action plans completed and timeliness of report issue were the most common KPIs according to a Deloitte global [survey](#) of Chief Audit Executives (CAEs).

\* Click image to enlarge

KPIs used to measure success and impact on the broader organization



**Image credit:** Deloitte - The Innovation Imperative 2018

These legacy measures resonate with internal audit stakeholders at every level. They are readily understood and evidenced.

- But do they truly measure the value of internal audit?
- Do they advocate a profession that is relevant?
- Are they fit for purpose?

## Fit for the future

Internal audit is a changing profession.

Audit leaders, along with their business counterparts, are continually reminded that transformation, innovation and agility are the new normal; essentials of the digital age. A series of **next-generation** internal audit competencies, identified by Protiviti, are shown in the diagram below.

Richard Chambers, IIA Global's then President and CEO, discussed internal auditors competencies at length at the Institute's annual conference in October 2019, where he said that in order to be relevant in today's world, internal audit activities need to identify emerging risks, leverage technology and innovate how they work. He also called for better planning of audit engagements, sharper communicating and outcomes that are more insightful.



**Image credit:** Protiviti - The Next Generation of Internal Auditing

The 2020 annual Protiviti survey of the profession reported a year on year reduction from 35% to 16% of CAEs stating that professional innovation contributions are measured as part of the performance of their internal audit activity; 40% also reported that their audit committee had no or only a low level of interest in their achievements.

- Is this reasonable?
- Should the audit committee be interested?

All executives are grappling with the unprecedented demands that a volatile, uncertain and complex environment places on their ability to safely steer the organisation; regardless of sector. Perhaps they expect their CAE to already be operating at their level, auditing at the speed of risk not playing catch up and reporting progress...

So, if legacy measures are outdated, what measures should audit leaders be reporting?

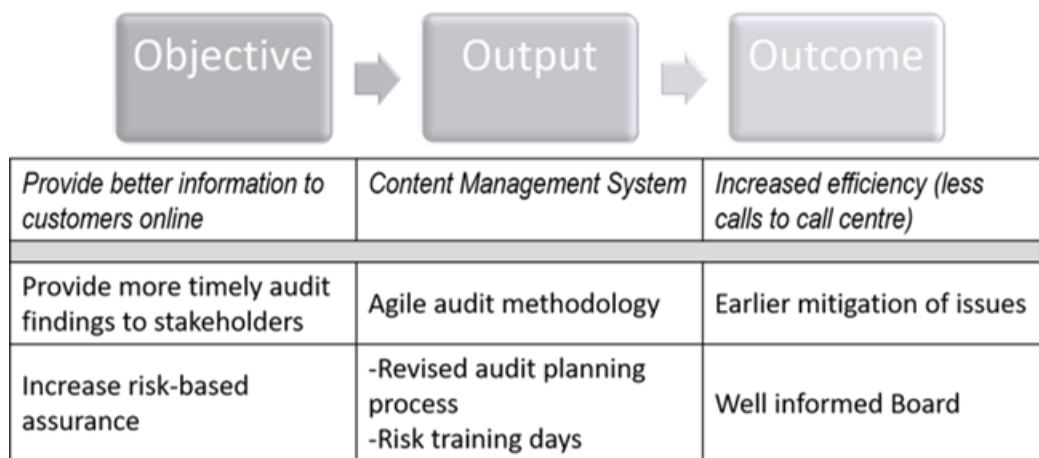
## Why not What

Outcome measures are familiar tools in the public and charities sectors, used to evaluate the effectiveness of interventions and services by identifying whether change has occurred over time.

They are also effective measures for internal audit.

The value of internal audit comes from the changes that an organisation makes as a result of audit findings, the opinions offered, and the assurances provided, not the number of actions agreed, or reports published.

Outcomes focus on organisational benefits rather than what is delivered to achieve them; elevating the strategic nature of internal audit reporting to board level.



There should be direct alignment between the expectations of the audit committee and the outcomes internal audit is striving for. CAEs must understand the needs of their stakeholders.

In a commercial organisation, outcomes can be distilled into increase revenue and reduce cost. There may only be a couple of key outcomes/expectations that all objectives should relate to.

Think for a moment about the definition of internal audit or your audit charter.

Does it talk about outputs such as assurance, evaluations, assessments, findings, opinions and reports or is it outcome based? Chances are it details the what and the how of internal audit's activities, but not the why.

Outcomes are the *why*, the *reason* for the output, the task of auditing.

To be fit for the future internal audit needs a change of emphasis and a new language.

## Time to refocus

The majority of legacy measures/KPIs highlighted earlier relate to outputs: audit committee attendance, number of reports published and budgeted engagement days vs actual days.

Such measures are important in guiding the tasks required as part of a Quality Assurance and Improvement Programme plus provide evidence for performance reporting and monitoring efficiency. But they are of limited value at board level.

CAEs need to refocus and use measures appropriate to the audience.

This approach builds on technical guidance that includes a list of commonly used KPIs and how they can be used across various reporting channels. CAEs need to differentiate between a useful measure to manage the internal audit activity, one that evidences performance and one that is meaningful to the board.

Category	Measures	AC regular report	AC annual report	HIA performance appraisal	Other regular
Audit committee attendance	IA attendance at AC meetings		X		
Customer satisfaction results	Scores from customer satisfaction q'aires	X			
Customer satisfaction results	Customer satisfaction, by audit and formal feedback from CX and AC Chair		X	X	
Delivery/annual report	AC acceptance of annual opinion/report			X	
Delivery/other	Numbers of investigations/advisory inputs	X	X	X	

Image credit: Chartered IIA

The independence of internal audit provides CAEs a unique challenge of reporting directing to the board - often the audit committee chair (a non-executive/trustee). Their time is precious, their priorities are strategic and yet they are also a line manager; it is incumbent on CAEs to rise to the challenge.

- What are the priorities of your board?
- What are the outcomes that matter?

Think back to the definition of internal audit and the audit charter and what it says about the value to the organisation of an internal audit activity. What are the outcomes written between the lines?

Outcomes of strategic relevance might include:

- More effective risk mitigation strategies
- Better informed decision-making
- Conscious risk-taking
- Establishment of proportionate controls
- Improvement of operational efficiency
- Protection of stakeholder interests
- Support towards sustainable strategic success

For internal audit to stay relevant as organisations evolve, CAEs need to ensure their reporting metrics are strategic.

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## Developing outcome measures

There are some simple questions that CAEs can ask to get started, focus on one outcome at a time, as you add more, challenge their individuality; there will be a handful at most.

- What outcome is important to the board?
- Why does this outcome matter?
- How can internal audit influence this outcome?
- Who is responsible for the outcome?
- How are you going to measure progress of internal audit's contribution?
- How will you measure success?
- How often will you review progress?

Measuring success and progress are important as outcomes are often long-term requiring change to be embedded: behavioural, operational, structural, transformational.

Both quantitative and qualitative metrics are important in demonstrating an internal audit activity's performance to key stakeholders, and both can be benchmarked against accepted standards, prior performance, and/or agreed upon expectations. This was the advice in a [2010 Practice Guide](#) which remains useful despite its age. Just be mindful of the balance between measures that support the management of the activity and those that are of strategic relevance to the board.

More contemporary measures might include:

- Indicators of risk culture
- Positive interventions pre-implementation (project/design)
- Requests for internal audit advice
- Management completion of actions within agreed timescales
- No 'risk surprises'
- Stakeholder feedback
- Attendance at knowledge sharing/training sessions
- Indicators of a robust control environment
- Cost of unnecessary controls removed
- Regulatory costs avoided

New measures might also be provocative, such as reporting the number of times that audit findings (weaknesses/improvements) were already well known to management, particularly where evidence

suggests repeated instances but not addressed for whatever reason; not easily evidenced. This type of measure might not help audit leaders to build relationships but in some circumstances may be beneficial to driving behavioural change.

Traditional measures or outputs will contribute to some of the contemporary measures, for example the number of new recruit inductions where internal audit has presented could be one of the indicators of a risk culture. There will undoubtedly be others where no data currently exists, and the measure will evolve over time.

Where outputs do not drive the achievement of an outcome, CAEs must question their value.

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## Closing thoughts

There is an old adage that “you get what you measure”, meaning that what is measured has a direct impact on performance. The measures used by internal audit are levers not only for the performance of auditors within the team but also the reputation of the CAE and the activity as a whole. Which levers are you pulling?

*"If you cannot measure it, you cannot improve it"*

***Lord Kelvin, Scientist***