

CORE PRINCIPLES AND THE COMPETENCY FRAMEWORK IN INTERNAL AUDITING



The Institute of
Internal Auditors

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Tea-Talk Webinar Session

Outline


- Introduction to the Core Principles for the profession of internal auditing.
- Application of Core Principles to achieve effectiveness of the internal audit function.
- Equipping internal auditors based on the Competency Framework.
- Measuring performance of the internal audit function.



May is Your Month **Internal Audit Awareness Month**

We know you perform some of the most unheralded, yet vital, work year-round, but May is the best month to let the world know about it. The IIA makes it easy to celebrate Internal Audit Awareness Month every May.

Source: www.theiia.org/en/about-us/advocacy/promote-your-profession/internal-audit-awareness-month/



“Every day, internal auditors work to reduce risk, ensure businesses operate efficiently, provide value to their organizations, and protect stakeholders. You can find us in every industry and sector, from the world’s largest brands to small, family-run businesses.

The average person may not realize just how many ways we impact your life, but by the time you get to the office in the morning – or log on to your computer if you’re a remote worker – you’ve probably already interacted with several devices, products or systems that were made safer by the assurance provided by an internal auditor.”

- Anthony Pugliese, CIA, CPA, CGMA, CITP, president and CEO of The IIA

Source: www.theiia.org/en/content/communications/press-releases/2022/may/may-is-international-internal-auditor-awareness-month/

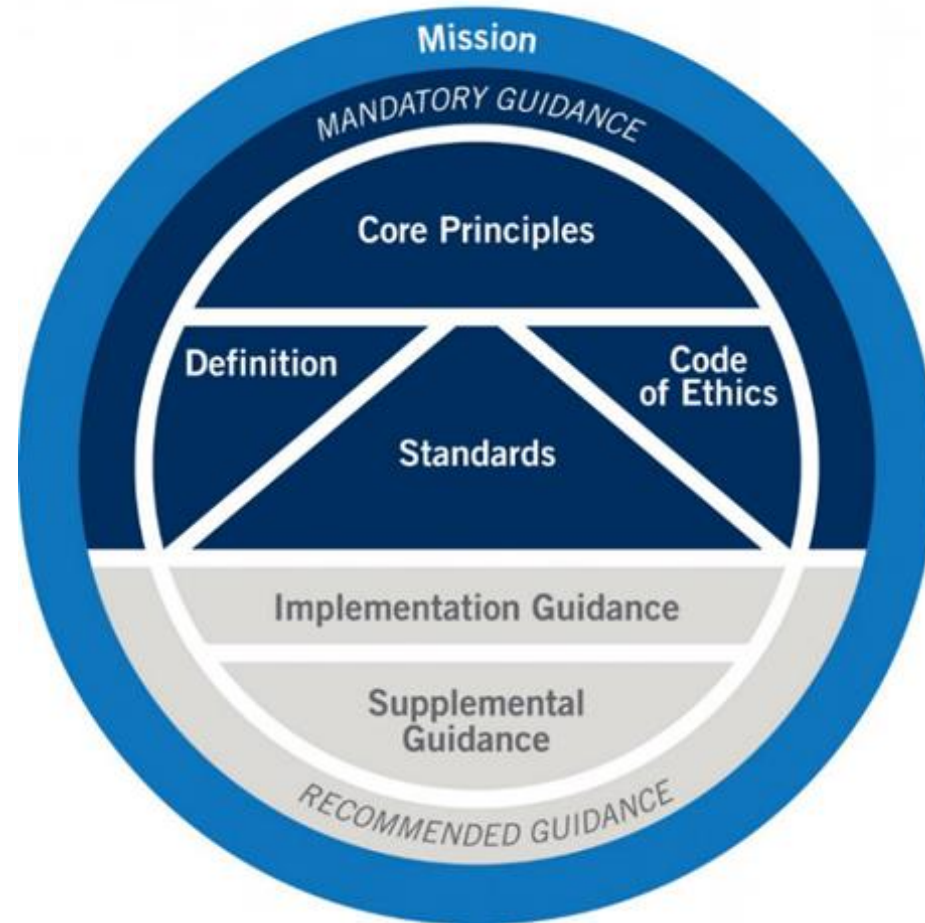
- The IIA's International Standards under the **International Professional Practices Framework (IPPF)** enhance internal auditors' ability to provide independent and objective assurance to boards of directors and management, enabling internal auditors to build trust and confidence among internal and external stakeholders, including the public, which is essential to business and society.



Source: www.theiia.org/en/content/communications/press-releases/2022/may/may-is-international-internal-auditor-awareness-month/



International Professional Practices Framework



Mission	Articulates what internal audit aspires to accomplish within an organization, which is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
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Mandatory Guidance	
Definition of Internal Auditing	Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
Core Principles for the Professional Practice of Internal Auditing	Defines tangible internal audit effectiveness , where the presence of all ten Principles and which operates cohesively would enable internal audit to function at maximum efficiency.

Mandatory Guidance

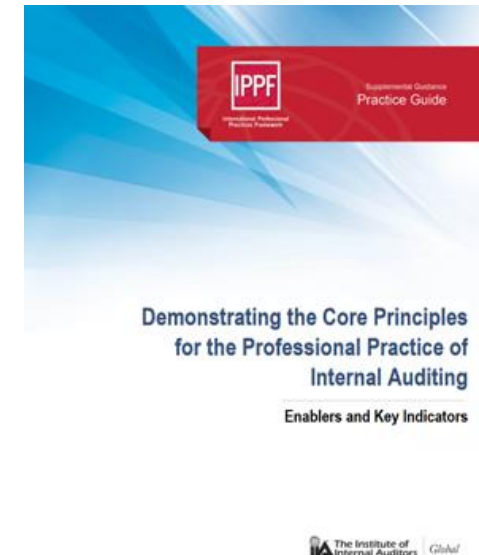
International Standards for the Professional Practice of Internal Auditing (ISPPIA)	<p>These Standards are principle-focused and provide a framework for performing and promoting internal auditing, and are primarily classified as Attribute Standards and Performance Standards (as laid out in Section 3.0), where:</p> <ul style="list-style-type: none">• Attribute Standards address the characteristics of organizations and parties performing internal audit activities.• Performance Standards describe the nature of internal audit activities and provide criteria against which the performance of these services can be evaluated.
Code of Ethics	<p>States the principles and expectations governing the behaviour of individuals and organizations in the conduct of internal auditing.</p>

Recommended Guidance

Implementation Guidance	Assists internal auditors in applying the Standards.
Supplemental Guidance	Provides detailed processes and procedures for internal audit practitioners.

Core Principles

An Internal audit function is considered to be effective in enhancing and protecting organisational value when it demonstrates achievement of the Core Principles (which is more elaborately laid out in the **Practice Guide on Demonstrating the Core Principles for the Professional Practice of Internal Auditing**).



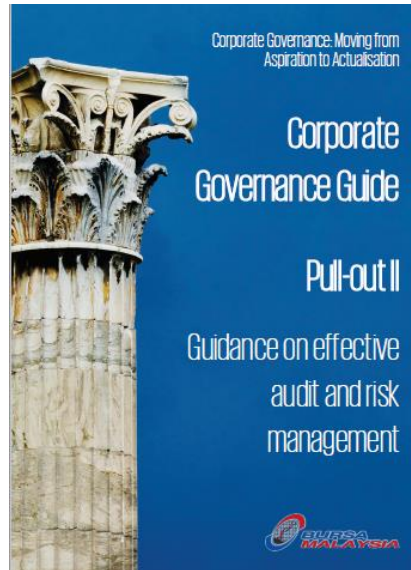
Core Principles

The Core Principles are illustrated in the following diagram:



The application of these core principles are evaluated in sample questions provided in the **Bursa Malaysia (2020) Corporate Governance Guide – Pull-out II**, demonstrating the practicality of these Core Principles in practice:

*Corporate Governance Guide
Pull-out II*



Appendix VII: Evaluation of internal audit function

This sample exhibit, which is not exhaustive, illustrates key questions which may be used to assist the process of evaluating the internal audit function. The internal audit function may be performed in-house or outsourced, as the company deems fit.

This sample Evaluation Questionnaire may be customised, depending on the circumstances of the company.

Source: www.bursamalaysia.com/sites/5bb54be15f36ca0af339077a/assets/5bb54d1a5f36ca0c341f0066/Pull-out_II.PDF

Principle 1: Demonstrates Integrity

An internal auditor demonstrates integrity when:

- Performing tasks honestly, diligently, and responsibly.
- Making **appropriate disclosures** when communicating with the Audit Committee, Management, and regulatory authorities, where applicable.
- Supporting ethical conduct of the organisation and **reporting illegal or discreditable acts**.
- **Maintaining confidentiality** of information acquired in the course of their work.

Sample question in the Bursa Malaysia (2020) CG Guide Pull-out II:

8. Do the internal auditors undertake their functions according to the standards set by recognised professional bodies?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	



Principle 2: Demonstrates Competence and Due Professional Care

The Internal audit function is to collectively has possess the required competencies to adequately address the extent and complexity of audit coverage over the organisation's operations.

This includes ensuring that internal auditors are equipped with:

- Appropriate qualifications such as the **CIA**.
- Necessary skills through **experience, training, and continuing professional education** such as that offered by IIAM.

Sample question in the Bursa Malaysia (2020) CG Guide Pull-out II:

1. Is the head of internal audit a member of:

IIAM¹ ☐

MIA² ☐

Any other professional body



Principle 3: Objective and Free from Undue Influence

Reporting relationships must not impede the exercise of independent judgement by internal auditors.

For example, conflict of interest policies that prohibit internal auditors from auditing functions where they **held functional responsibilities in the past twelve months or those they are currently responsible for.**

In the event that the Internal audit function is required to undertake activities other than internal audit, **safeguards must be put** in place to address perceived or actual impairments to the independence of the Internal audit function.

Sample question in the Bursa Malaysia (2020) CG Guide Pull-out II:

2. Does the audit committee decide on the scope and functions of the internal audit as required in the Listing Requirements? If not, please comment on who makes that decision and why.

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	



Principle 4: Aligns with the Strategies, Objectives, and Risks of the Organisation

The Internal audit function is to ensure that the risk-based audit plan is aligned with the organisation's strategies, objectives, and risks, and is **developed in consultation with Management**.

This plan is intended to ensure that the internal audit scope of coverage adequately examines areas with the **greatest exposure to the key risks** that could affect the organisation's ability to achieve its objectives.

The risk-based plan must be **reviewed and revised**, when deemed necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

Sample question in the Bursa Malaysia (2020) CG Guide Pull-out II:

3. Does the internal audit function understand the company's business and the peculiarities of the industry(ies) of which the company operates in?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

Principle 5: Appropriately Positioned and Adequately Resourced

The CAE must be positioned at **a level of sufficient seniority** in the organisation to be recognised as an authoritative voice.

The **Internal Audit Charter** must specify the level of authority, including **unrestricted access to information, records, physical properties, and personnel**, required for the Internal audit function to perform engagements and to fulfil its agreed-upon objectives and responsibilities.

Resourcing of IA to ensure

- adequate manpower and supporting infrastructure
- Co-sourcing when necessary.
- Having the required qualifications, competence, and experience.

Sample question in the Bursa Malaysia (2020) CG Guide Pull-out II:

7. Does the internal audit function have sufficient resources and competency to carry out its work?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	



Principle 6: Demonstrates Quality and Continuous Improvement

To have a continuous **quality assurance and improvement programme** that covers all aspects of an internal audit function and includes both internal and external assessments.

Internal assessments to include:

- Ongoing monitoring of the performance of the Internal audit function.
- Periodic self-assessments or assessments by other persons within the organisation who have sufficient knowledge of internal audit practices.

External assessments must be conducted at least once in every five years by a qualified, independent assessor or assessment team from outside the organisation.

Sample question in the Bursa Malaysia (2020) CG Guide Pull-out II:

12. Has the listed issuer carried out a Quality Assessment Review (QAR) of the internal audit function?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

Principle 7: Communicates Effectively

Communications is to be accurate, objective, clear, concise, constructive, complete, and timely.

The CAE must discuss with the Audit Committee and Management to:

- Understand their **reporting expectations**.
- Determine the **frequency and form of internal audit reporting**.
- Agree in advance on **protocols for reporting** on important and urgent risk or control events and the related actions to be taken by the Audit Committee and Management.

Sample question in the Bursa Malaysia (2020) CG Guide Pull-out II:

4. Do internal auditors meet with the audit committee without the presence of non-audit committee members whenever deemed necessary in relation to the operations of the company?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

Principle 8: Provides Risk-based Assurance

To use a risk-based approach to conduct assurance work. All risk areas should be identified and prioritised.

Identify key risks by **reviewing the organisation's risk profile** and from discussions with the Risk Management Department, if available, while taking into account the organisation's risk appetite.

Internal auditors need to **understand the organisation's business** to perform meaningful evaluations.

Additionally, internal auditors may use their knowledge, experience, and best practices to proactively highlight observed weaknesses and make recommendations for improvement.

Sample question in the Bursa Malaysia (2020) CG Guide Pull-out II:

5. Does internal audit function perform regular reviews to test the effectiveness of the financial, operational and compliance controls and processes of the company?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

6. Does the internal audit function test the effectiveness of risk management framework and policies?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

Principle 9: Insightful, Proactive, and Future-focused

Internal auditors should be proactive and their evaluations should **identify root-causes of issues and exceptions, offer new insights, and consider future impact.**

This begins with the audit planning process where internal auditors should consider **industry developments and trends.**

Data analytics can be employed in audit work to provide insights and identify potential risks that have a future impact on the organisation.

Sample question in the Bursa Malaysia (2020) CG Guide Pull-out II:

9. Does the internal audit function provide input into developing action plans to monitor risks and internal controls based on the internal audit plan and processes undertaken?

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	



Principle 10: Promotes Organisational Improvement

To assess and make **appropriate recommendations** to **improve the processes** for:

- Making strategic and operational decisions.
- Promoting appropriate ethics and values.
- Ensuring effective organisational performance management and accountability.
- Ensuring that organisational objectives support and align with the organisation's mission.
- Identifying and assessing significant risks.
- Ensuring that appropriate risk responses are selected to align risks with the organisation's risk appetite.
- Capturing relevant risk information and communicating such information.
- Enhancing the control environment.

Sample question in the Bursa Malaysia (2020) CG Guide Pull-out II:

10. Is the scope of internal audit limited to certain areas only? If so, please state the reason for the limitation.

Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comment:	

Internal Audit Competency Framework

In efforts to further enhance the effectiveness of the Internal Audit Function, the **Internal Audit Competency Framework** was developed by The Institute of Internal Auditors (2020) which provides a clear and concise professional development plan for internal auditors at every level of their career.

The Framework defines four knowledge areas as illustrated in the diagram below with three distinct competency levels of

- (1) general awareness;**
- (2) applied knowledge, and**
- (3) expert.**

Source: www.theiia.org/en/standards/internal-audit-competency-framework/

Internal Audit Competency Framework




Internal Audit Competency Framework

Snapshot of the Internal Audit Competency Framework:

INTERNAL AUDIT COMPETENCY FRAMEWORK

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 PROFESSIONALISM Competencies required to demonstrate the authority, credibility, and ethical conduct essential for a valuable internal audit activity.	KNOWLEDGE AREA	COMPETENCY LEVEL		
		GENERAL AWARENESS	APPLIED KNOWLEDGE	EXPERT
	Mission of internal auditing	Describe the purpose, authority, and responsibility of the internal audit activity; distinguish between assurance and consulting services.	Demonstrate ability to conduct both assurance and consulting engagements in conformance with the <i>Standards</i> .	Review the internal audit activity's ability to conduct both assurance and consulting activities to add value and improve the organization's operations.
	Internal audit charter	Describe the purpose of an internal audit charter; identify the required elements of an internal audit charter, according to the <i>Standards</i> .	Prepare an internal audit charter in conformance with the <i>Standards</i> , and receive approval from the board.	Evaluate and revise an internal audit charter to achieve conformance with the <i>Standards</i> and promote world-class performance.
	Organizational independence	Describe the importance of organizational independence of the internal audit activity; identify the elements that affect independence.	Detect any potential impairments to internal audit independence and the impact.	Address any potential impairments to internal audit independence to achieve conformance with the <i>Standards</i> ; communicate the impact of any remaining impairments.
	Individual objectivity	Describe the importance of internal audit objectivity; identify factors that may impair, or appear to impair, objectivity.	Detect and manage any real or perceived impairments to an individual internal auditor's objectivity; assess and maintain internal audit objectivity.	Develop and maintain policies that govern objectivity; recommend strategies to promote objectivity.


Source: iia-belgium.org/wp-content/uploads/2020/10/Internal-Audit-Competency-Framework-002.pdf

Internal Audit Competency Framework

Snapshot of the Internal Audit Competency Framework:

INTERNAL AUDIT COMPETENCY FRAMEWORK

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 PERFORMANCE Competencies required to plan and perform internal audit engagements in conformance with the <i>Standards</i> .	KNOWLEDGE AREA	COMPETENCY LEVEL		
		GENERAL AWARENESS	APPLIED KNOWLEDGE	EXPERT
	Organizational governance	Describe the concept of organizational governance.	Detect risks related to the organization's governance policies, processes, and structures.	Recommend improvements to the organization's governance policies, processes, and structures.
	Fraud	Recognize types of fraud, fraud risk, and red flags for fraud.	Evaluate the potential for fraud and how the organization detects and manages fraud risks; recommend controls to prevent and detect fraud and educate to improve the organization's fraud awareness.	Apply forensic auditing techniques in fraud prevention, deterrence, and investigation.
	Risk management	Describe fundamental concepts of risk and risk management; describe risk management frameworks.	Use a risk management framework to identify potential threats; examine the effectiveness of risk management within processes and functions.	Appraise the methods used to assess the effectiveness of risk identification and management.
	Internal control	Identify types of controls.	Use an internal control framework to examine the effectiveness and efficiency of internal controls.	Evaluate and recommend improvements to the organization's internal control framework; assess the organization's implementation of its internal control framework.

Internal Audit Competency Framework

Snapshot of the Internal Audit Competency Framework:

INTERNAL AUDIT COMPETENCY FRAMEWORK

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 ENVIRONMENT Competencies required to identify and address the risks specific to the industry and environment in which the organization operates.	KNOWLEDGE AREA	COMPETENCY LEVEL		
		GENERAL AWARENESS	APPLIED KNOWLEDGE	EXPERT
Organizational strategic planning and management <ul style="list-style-type: none"> • Structure • Performance measures • Organizational behavior • Leadership 		Identify the risk and control implications of different organizational structures.	Evaluate the organization's governance structure and the impact of organizational structure and culture on the overall control environment and risk management strategy.	Recommend improvements to the overall control environment and risk management strategy.
		Describe the strategic planning process.	Analyze the organization's strategic planning process.	Recommend improvements to the organization's strategic planning process.
		Describe common performance measures.	Examine performance measures used by the organization.	Select appropriate performance measures.
		Explain organizational behavior and performance management techniques.	Examine existing organizational behavior and performance management techniques.	Recommend appropriate organizational behavior and performance management techniques.
		Describe management's effectiveness to lead and build organizational commitment.	Examine management's effectiveness to lead and build organizational commitment.	Recommend actions to improve management's approach to leading and building organizational commitment.
	Common business processes	Describe the risk and control implications of common business processes (human resources, procurement, contracting, product development, project management, sales, marketing, logistics, management of outsourced processes, etc.).	Examine the risks and controls related to the organization's business processes.	Recommend actions to address risks related to the organization's business processes.

Internal Audit Competency Framework

Snapshot of the Internal Audit Competency Framework:

INTERNAL AUDIT COMPETENCY FRAMEWORK

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	KNOWLEDGE AREA	COMPETENCY LEVEL		
		GENERAL AWARENESS	APPLIED KNOWLEDGE	EXPERT
 <p>LEADERSHIP & COMMUNICATION</p> <p>.....</p> <p>Competencies required to provide strategic direction, communicate effectively, maintain relationships, and manage internal audit personnel and processes.</p>	Internal audit strategic planning and management	Recognize the importance of aligning the internal audit strategic plan with the organization's strategy.	Create the internal audit strategic plan in alignment with the organization's strategy, risk profile, and risk management strategy; create an effective and efficient budget for the internal audit activity.	Assess the internal audit strategic plan; evaluate and recommend improvements to the budget for the internal audit activity.
		Differentiate various internal audit roles, including the engagement supervisor and chief audit executive.	Manage internal audit personnel (including recruiting, developing, motivating, managing conflict, building teams, delegating, retaining talent, and succession planning); create policies and procedures for managing internal audit operations.	Assess the talent management efforts of the internal audit activity; appraise policies, procedures, and administrative activities of the internal audit activity.
		Identify key activities in supervising engagements.	Supervise engagements.	Assess engagement supervision activities to ensure the quality of the internal audit activity.
	Audit plan and	Identify sources of potential engagements, including industry trends and emerging risks.	Conduct a risk assessment, prioritize engagements, develop a risk-based internal audit plan, and obtain board approval.	Evaluate and revise a risk-based internal audit plan to meet the organization's evolving needs.

Internal Audit Competency Framework

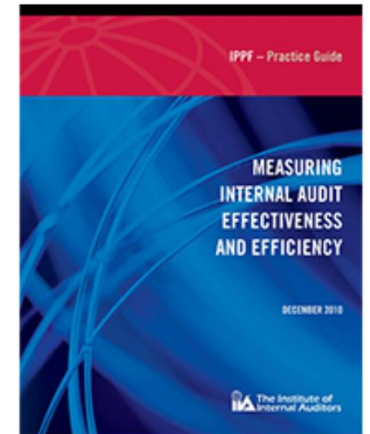
The Competency Framework can be used to support:

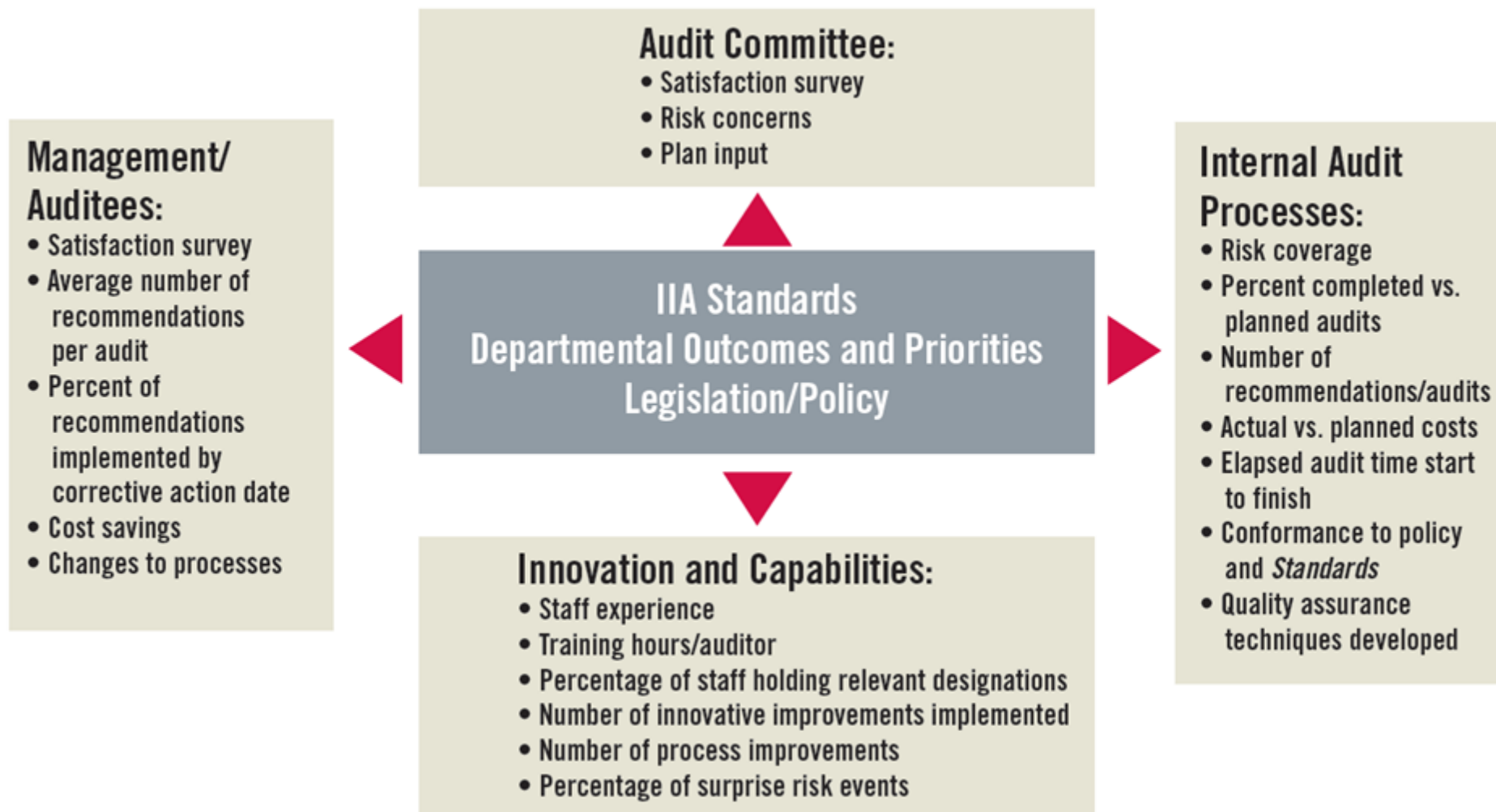
- training and professional development activities;
- scheduling of resources for internal audit engagements;
- decisions regarding the use of third-party subject matter experts for internal audit engagements;
- identification of professional certification requirements;
- hiring of new staff into internal audit; and
- succession planning for the CAE and experienced internal auditors.

Measuring Performance of the Internal Audit Function

The IPPF **Practice Guide – Measuring Internal Audit Effectiveness and Efficiency (2010)** provides that in addition to compliance with the Standards, internal auditing's **performance measurement** objectives may include the following specific measures:

- level of contribution to the improvement of risk;
- management and control and governance processes;
- achievement of key goals and objectives assigned;
- evaluation of progress against audit plan;
- staff productivity;
- cost efficiency of the audit process;
- number of action plans for process improvements; effectiveness in meeting the needs of stakeholders; and
- the sufficiency of quality assurance reviews.





Source: IPPF Practice Guide – Measuring Internal Audit Effectiveness and Efficiency (2010)

Sample performance measures

PERFORMANCE MEASUREMENT CATEGORY	MEASURES OF EFFICIENCY	MEASURES OF EFFECTIVENESS	MEASURES OF EFFICIENCY AND EFFECTIVENESS
Basic Measures	<ul style="list-style-type: none"> • Number of audits scheduled. • Number of audit completed. • Timeliness of performance feedback. • Staff utilization – direct vs. indirect time. • Completed audits per auditor. • Actual hours vs. budgeted hours. • Audit report cycle time: elapsed time from opening conference to fieldwork completion and elapse time from fieldwork completion to final report. • Number of internal audit reports issued vs. planned internal audits. 	<ul style="list-style-type: none"> • Client satisfaction ratings. • Staff satisfaction ratings. • Number of significant audit findings. • Percent of recommendations implemented. • Number of repeat findings. • Number of open audit findings past planned corrective action date. • Number of unsatisfactory internal audit opinions. 	<ul style="list-style-type: none"> • Training/CPE hours. • Staff turnover/retention.


Source: IPPF Practice Guide: Measuring Internal Audit Effectiveness and Efficiency - Appendix C

Service to Stakeholders	<ul style="list-style-type: none"> • Responsiveness to special requests. • Average response time to management request. • Number of control self-assessment (CSA) sessions conducted. • Number of auditors per 1,000 employees. • Number of auditors per \$1 million of revenue/\$1 million of assets. • Completed vs. planned audits. • Cost savings as a percentage of department budget. 	<ul style="list-style-type: none"> • Delivery of high quality service. • Management of auditee expectations. • Building strong relationships. • Number of management requests. • Number of committees and task forces audit is involved in. • Amount of identified cost savings and percent of recoveries. 	<ul style="list-style-type: none"> • Client survey scores (see example survey letter in Appendix E). • Senior management survey scores. • Audit committee survey scores. • Number of positive and negative feedback about audits/auditors.
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Source: IPPF Practice Guide: Measuring Internal Audit Effectiveness and Efficiency - Appendix C

PERFORMANCE MEASUREMENT CATEGORY	MEASURES OF EFFICIENCY	MEASURES OF EFFECTIVENESS	MEASURES OF EFFICIENCY AND EFFECTIVENESS
Knowledge of Business		<ul style="list-style-type: none"> • Applying that knowledge to help solve complex client issues. • Development of deep industry knowledge. • Developing and contributing best practices, emerging issues, and industry trends. • Best practices benchmarked. 	
Technical Development		<ul style="list-style-type: none"> • Development of relevant technical knowledge: <ul style="list-style-type: none"> • Internal auditing. • Accounting. • Regulatory. • Business. • Compliance with audit methodology set. 	

Source: IPPF Practice Guide: Measuring Internal Audit Effectiveness and Efficiency - Appendix C



Innovation	<ul style="list-style-type: none"> • Use of technology in audits. • Creativity and efficiency. • Number of internal audit improvement teams and time spent (by team). 	<ul style="list-style-type: none"> • Enhanced audit process. • Number of best practices identified and communicated within an organization or internal audit activity. • Number of hours spent in industry or other specialized training. • Involvement in professional organizations (e.g., IIA, auditor roundtables). • Thought leadership. 	
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Source: IPPF Practice Guide: Measuring Internal Audit Effectiveness and Efficiency - Appendix C

PERFORMANCE MEASUREMENT CATEGORY	MEASURES OF EFFICIENCY	MEASURES OF EFFECTIVENESS	MEASURES OF EFFICIENCY AND EFFECTIVENESS
People Development	<ul style="list-style-type: none"> • Number of coaching sessions in a year. • Tracking of development plan (plan vs. actual). • Achievement of minimum training hours required. 	<ul style="list-style-type: none"> • Average months in position. • Number of staff rotations in and out of the internal audit activity. • Average years of audit experience. • Percent of auditors with professional certifications. • Percent of auditors with advanced degrees. • Training hours per auditor. • Auditor turnover. • Number/percent of auditors transferred/promoted to other functions in the organization vs. the number that left the company. 	<ul style="list-style-type: none"> • Assistance in recruiting by team members (participation in review of resume, interview etc.).

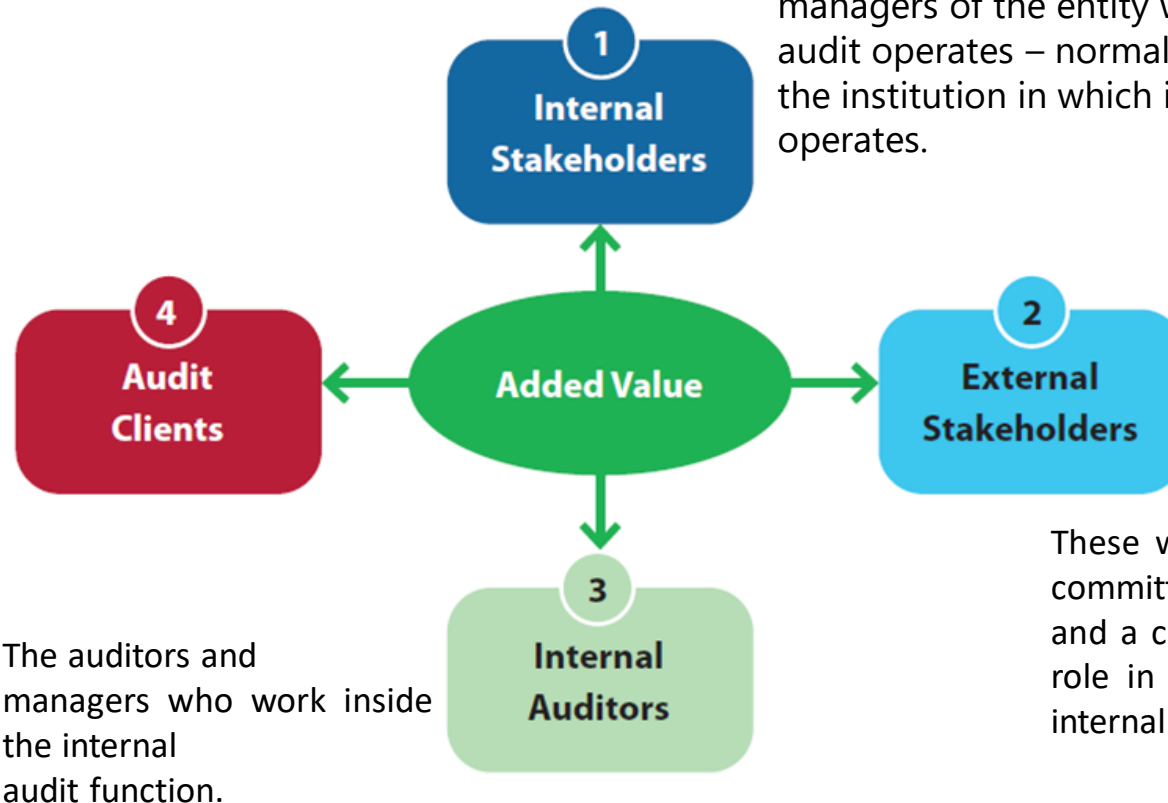
Source: IPPF Practice Guide: Measuring Internal Audit Effectiveness and Efficiency - Appendix C

More contemporary measures...

The internal audit function can consider utilising **Balanced Scorecards** in internal auditing to manage and measure internal audit performance through **Key Performance Indicators (KPIs)** which allows showcases on its contribution and achievements, as proposed in the whitepaper on Balanced Scorecard Reporting by The Institute of Internal Auditors Australia (2019).

The **Balanced Scorecard** is proposed by the Internal Audit Community of Practice (2020) to have the following quadrants:

A subset of internal stakeholders who have specific interactions with internal audit in relation to audit engagements.



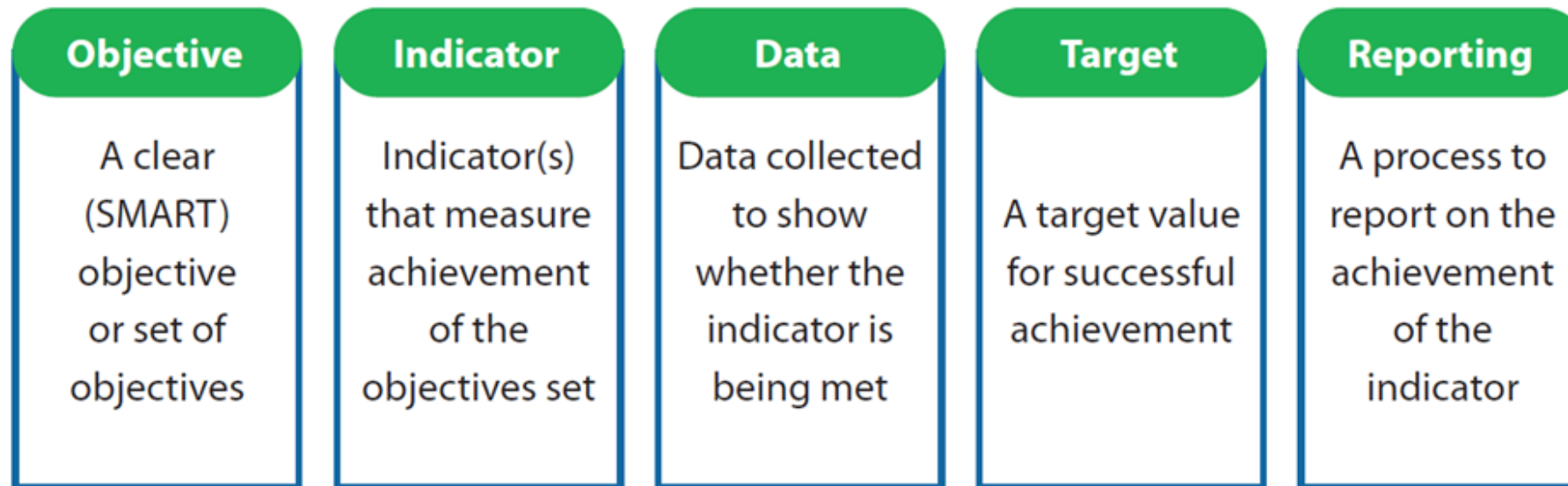
These are the senior and/or supervisory managers of the entity where internal audit operates – normally the head of the institution in which internal audit operates.

The auditors and managers who work inside the internal audit function.

These would include an audit committee (if one exists) and a central body that has a role in supporting/overseeing internal audit functions.



In setting KPIs, the **criteria employed** is illustrated in the following diagram by Internal Audit Community of Practice (2020):



Sample KPIs for IA Balanced Scorecard...

for Internal Stakeholders

Possible Performance Indicators	Comment
Materiality of audit findings.	Helps managers understand whether internal audit has identified serious issues.
Percentage of unsatisfactory ratings.	Measures how many audits result in poor or unsatisfactory ratings. This may be an indicator of the control maturity of the organization.
Percentage of the audit plan delivered during the year.	A low percentage may indicate that internal audit is taking on too many unplanned assignments. But it could also indicate that internal audit is being agile in responding to requests for assistance.
Results of client satisfaction survey questionnaire at the end of audit assignments.	Provides senior managers with an indicator of how well internal audit is performing its individual audit assignments.
Cost savings generated by implementing internal audit recommendations.	Senior managers are interested in knowing to what extent internal audit recommendations result in cost savings across the organization.

Percentage of recommendations implemented by taking corrective action.	An indicator of the relevance, credibility, and quality of internal audit work.
Number of complaints from regulatory bodies.	Provides an indication of areas that may have been overlooked by internal audit. Plus the control maturity/culture of the organization.
Number of frauds per annum and the value of frauds.	The quantity of frauds and the total value of fraud measure different aspects of fraud risks within the organization.
Percentage of high-risk audit universe covered each year.	How far is internal audit covering the major areas of risk within the organization.
Percentage of internal auditors being promoted elsewhere in the organization.	May indicate that internal audit is developing high quality staff that are valued elsewhere in the organization.

Source: Internal Audit Community of Practice (2020). Key Performance Indicators for Internal Audit Function

Sample KPIs for IA Balanced Scorecard...

for External Stakeholders

Possible Performance Indicators	Comment
Audit committee rating.	An overall rating of the internal audit function provided by the audit committee – this may be descriptive rather than a rating within a scale.
Percentage of recommendations accepted or not.	The proportion of recommendations accepted is a measure of the success of internal audit work.
Number of frauds per annum and value of frauds.	The quantity of frauds and the total value of fraud measure different aspects of fraud risks within the organization.
Indicators of the independence of internal audit.	These may be qualitative rather than quantitative for example the results of external quality assessments or CHU reviews, plus annual declaration by internal audit.
Percentage of high-risk audit universe covered each year.	How far is internal audit covering the major areas of risk within the organization.

Percentage of audit assignments that respond directly to concerns raised by the audit committee.	Measures whether internal audit is responding to the needs of the audit committee.
Results of client satisfaction survey questionnaire at the end of audit assignments.	Helps the audit committee to assess the level of satisfaction from senior management.
Results of annual client satisfaction survey of senior managers.	
Results of internal quality assessments.	A critical indicator of the quality of audit work undertaken by the internal audit function.
Results of periodic external quality assessments.	The highest value indicator of the quality of internal audit work.

Source: Internal Audit Community of Practice (2020). Key Performance Indicators for Internal Audit Function

Sample KPIs for IA Balanced Scorecard...

for Internal Auditors

Possible Performance Indicators	Comment
Percentage of audits completed versus those planned.	May indicate there is too much unplanned work.
The elapsed time for completing an audit from start to finish.	A general indicator of the overall efficiency of the audit.
The mean or average time from a closing meeting to issuing the audit report.	A good measure of efficiency in the report writing process which in turn indicates that the audit was well planned to generate the evidence needed.
Percentage of annual audit costs versus annual budget.	Looks at how good an audit unit is at managing costs.
Number of years of relevant business experience across all staff.	A useful indicator of the level of required business expertise.

Number of years of audit experience across all staff.	A useful indicator of the level of direct audit experience.
The percentage of certified auditors.	A good indicator of the level of trained auditors.
Percentage of planned and unplanned staff turnover during the year.	High levels of turnover may be an indication of staffing problems in the unit.
Number of training hours per auditor per year.	Measures the extent to which auditors are meeting continuing professional development expectations. This is also an indicator of the priority internal audit gives to training.
Number of innovative improvements.	An indicator of whether the internal audit unit is regularly reviewing its own processes.

Source: Internal Audit Community of Practice (2020). Key Performance Indicators for Internal Audit Function

Sample KPIs for IA Balanced Scorecard...

for Audit Clients

Possible Performance Indicators	Comment
Satisfaction survey rating.	May indicate satisfaction or problems with individual assignments or managers.
Percentage of issues that are open, closed, or past due.	May indicate that managers are not taking sufficient action to address recommendations raised by internal audit.
Percentage of recommendations accepted or not.	May indicate that internal audit is not selling their findings to clients well.
Number of repeat findings.	May indicate that systemic weaknesses are not being addressed.
Number of requests by local management for audit support.	May indicate that clients are seeking out internal audit help and value their services.

Source: Internal Audit Community of Practice (2020). Key Performance Indicators for Internal Audit Function

The following **10 action steps** on the **implementation of the Balanced Scorecard and KPI reporting** are provided by The Institute of Internal Auditors Australia (2019):

Step 1: Collaborate with the Audit Committee and Chief Executive Officer to agree on establishment of balanced scorecard reporting;

Step 2: Establish Key Performance Indicators (KPIs) in consultation with the Audit Committee and Chief Executive Officer;

Step 3: Incorporate KPIs and the requirement for Balanced Scorecard reporting in the Internal Audit Charter;

Step 4: Modify the internal audit QAIP to establish a source of assurance that integrity of reporting is being maintained;

Step 5: Develop and document key elements of the reporting arrangements;


Step 6: Inform internal audit leaders and auditors (including outsourced and co-sourced service providers) of the introduction of balanced scorecard reporting;

Step 7: Modify the personal performance goals of internal audit leaders and auditors so there is a direct and clearly understood relationship between personal goals and those of the internal audit function;

Step 8: Provide visibility to internal audit leaders and auditors on how their personal goals align to the KPIs of the internal audit function as reported through the balanced scorecard report;

Step 9: Design and introduce balanced scorecard reporting that suits the needs and expectations of the Audit Committee;

Step 10: Periodically refine the performance measures (KPIs) so the scorecard remains relevant.



KPIs should provide management with a clear indication of the performance and quality of the internal audit function and should be an integral part of the internal audit system.

They should focus on the **added value** generated by internal audit activity for both internal and external stakeholders.

