

Evaluation of the internal audit function



Internal audit can have a positive impact on the control environment of an organisation and the effective design and operation of internal control. Internal audit can also play a significant role in supporting the audit committee through the provision of assurance as to whether the controls implemented by management are fit for purpose and working as intended. Part of the audit committee's role is to annually review the need for an internal audit function and, where such a function exists, its effectiveness.

This document provides a framework to assist audit committees when reviewing the effectiveness of the internal audit function.

This assessment process focuses on your personal perception of the internal audit function as a whole - it does not seek to evaluate individuals and their personalities. The audit committee chairman should determine who is asked to complete the questionnaire. It is not unusual for it to be completed by audit committee members, (prior to feedback from other areas of the organisation); the heads of major business units/subsidiaries and the CFO; and the head of the internal audit function (i.e. self assessment). The external auditor may also be asked to comment.

The questionnaire takes about 10 minutes to complete and should be completed in the following manner:

- Using a scale of 1 (low) to 10 (high), complete each question by placing your score in the two boxes beside the question. 'Actual' is your view of the current position of the internal audit function on that issue. 'Ideal' is the score that you would like to see.

The difference can be used to determine the relative priority of each issue. You may wonder why there is a choice of score on the Ideal position as you may think it should always be a ten (the maximum). This may often be the case; however, there may be occasions where you feel an area is of less importance and therefore may merit an Ideal score lower than ten. We would stress that the main reason for asking for the two scores is to see where the biggest gaps are between Actual and Ideal as this identifies where any development priorities lie.

- There is a space for comments beside each question. You are not obliged to make comments; however, comments do improve the quality of the review and therefore are to be encouraged.
- 'N/A' can be used where you don't have a view on the matter in question.
- All responses will be treated as anonymous unless the individual completing the questionnaire wishes otherwise.

Typical answers might look like this:

	Actual	Ideal	N/A	Comments
1. Internal audit have a comprehensive strategic plan, developed in collaboration with the audit committee, executive management and principal stakeholders; and aligned to the organisation's own strategy and medium term risk profile?	6	10		The audit committee has little input into the audit plan. It is received late in the day and is essentially a fait accompli.
2. Internal audit harness technology throughout its audit and administrative processes to maximise efficiencies and improve audit effectiveness?	7	7		The technology used is appropriate for a small organisation (and IA function), but it is recognised that more might be achieved if resources permitted.

A. Positioning

	Actual	Ideal	N/A	Comments
Mandate and strategy				
1. Internal audit have a comprehensive strategic plan, developed in collaboration with the audit committee, executive management and principal stakeholders; and aligned to the organisation's own strategy and medium term risk profile?	()	()	()	()
2. Internal audit is recognised by business leaders as a function providing quality challenge (for example by telling them things they did not already know, identifying root causes of control breakdowns and opportunities for improving control design, and trends in risks and controls)?	()	()	()	()
3. Internal audit have a sound understanding of business strategy and the associated risks, and be able and willing to challenge the control environment and infrastructure supporting the strategy and be able to read across from one part of the organisation to another?	()	()	()	()
4. Internal audit have an integral role in the governance structure (as the "third line of defence") which is clearly aligned with its stakeholders, clearly articulated in its mandate and widely understood throughout the organisation?	()	()	()	()

Organisation and structure				
5. Internal audit are independent from the business and have clear and unfettered reporting into the audit committee and direct access to the chairman of the board?	()	()	()	()

	Actual	Ideal	N/A	Comments
6. Internal audit are structured so as to enable both the maintenance of independence and objectivity on the one hand, and proximity to the business (so as to establish and maintain relationships with and comprehensive understanding of the business) on the other?	()	()	()	()
7. Internal audit consult and collaborate with risk control functions to ensure an appropriate allocation of responsibility within the organisation?	()	()	()	()
8. Internal audit have a presence in major governance and control forums throughout the organisation, for example, any risk committee?	()	()	()	()

Stakeholders				
9. Internal audit is characterised by strong relationships at the highest levels (for example, does the head of internal audit and senior colleagues have direct and strong relationships with board members, business heads and senior management)?	()	()	()	()
10. Internal audit regularly attend executive meetings to present audit findings, trends and current views (of the control environment)?	()	()	()	()
11. Internal audit regularly attend audit committee meetings to present audit findings, trends and current views (of the control environment)?	()	()	()	()
12. Through its activities, internal audit is able to articulate to senior management the risks of their actions in a structured and balanced manner, and provide credible recommendations to mitigate the risks?	()	()	()	()
13. Internal audit have strong relationships with key external stakeholders (in particular, external auditors and any relevant regulators)?	()	()	()	()
14. Internal audit proactively manages relationships with its key stakeholder population?	()	()	()	()

Funding				
15. Internal audit have no unreasonable budgetary constraints which limit its ability to deliver on its mandate, given the risk appetite of the organisation?	()	()	()	()
16. Internal audit manages its resources effectively to maximise the value of its service to the business?	()	()	()	()

B. People

	Actual	Ideal	N/A	Comments
Leadership				
1. Internal audit have the standing, credibility and impact to present its views in audit (and risk) committees, and influence the organisation?	()	()	()	()
2. Internal audit includes sufficient individuals who are senior and experienced enough, with sufficient business understanding, to apply judgement and challenge the business on a broad array of topics?	()	()	()	()

Competencies				
3. Internal audit comprises a diverse talent pool with a broad mix of skills and experience gained within internal audit and in business?	()	()	()	()
4. Internal audit includes individuals recognised (by the business) as experts in governance, control and risk mitigation?	()	()	()	()
5. There is an appropriate mechanism for identifying the skills and competencies required to deliver its annual plan, identifying and relieving gaps and being responsive to the changing risk profile of the organisation?	()	()	()	()

Staffing strategy				
6. Internal audit is forward thinking in its medium to longer term staffing strategy (for example, by taking into account growth areas in the business, new and emerging risk areas, and both internal and external factors affecting the function's ability to attract talent)?	()	()	()	()
7. Internal audit is able to attract the 'right' people by providing a value adding career development opportunity to the organisation's top talent?	()	()	()	()
8. Internal audit is able to develop its personnel through comprehensive training and development?	()	()	()	()

Culture				
9. Internal audit is characterised by a culture of challenge, probing, and continuous improvement?	()	()	()	()

	Actual	Ideal	N/A	Comments
10. Internal audit is characterised by a culture of continuous improvement in the internal audit process?	()	()	()	()
11. Internal audit acts as a role model and adheres to high ethical standards and values?	()	()	()	()

Reward and appraisal				
12. Internal audit have competitive remuneration policies based on the achievement of defined performance metrics (for example, based on quality of work and impact upon the business, and not simply delivery against plan and business performance)?	()	()	()	()

C. Processes

	Actual	Ideal	N/A	Comments
Risk assessment and planning				
1. Internal audit have a risk based audit plan based on a risk assessment accepted and approved by the board?	()	()	()	()
2. Internal audit is forward looking when determining the audit plan and is nimble enough to adapt its planned activities, sometimes rapidly, in the case of new and emerging risks?	()	()	()	()
3. Internal audit submits its plan to the audit committee for approval on a timely basis (at least annually) and as appropriate when updates are required?	()	()	()	()

Execution				
4. Internal audit reflects on and adapts its methodology to ensure that it remains fresh and relevant, through integrated (not post hoc) quality assurance and learning programmes?	()	()	()	()
5. Internal audit conducts end-to-end/corporate wide audit activities which enable it to obtain a holistic view (for example, within and across business units, functions, processes, and jurisdictions) as to whether the primary risks facing the organisation are appropriately mitigated?	()	()	()	()

	Actual	Ideal	N/A	Comments
6. Internal audit harness technology throughout its audit and administrative processes to maximise efficiencies and improve audit effectiveness?	()	()	()	()
7. Internal audit maintain and promote comprehensive knowledge management systems, widely used by its staff?	()	()	()	()

Reporting

8. Internal audit produce reports for individual audits with a clear rating scale which identify both root causes and consequences of issues and which are delivered on a timely basis with clarity and impact, and include credible recommendations to management?	()	()	()	()
9. Internal audit produce reports for the audit committee which present information in a clear, concise and impactful manner, including the identification of themes and trends, and their consequences for the organisation as a whole?	()	()	()	()
10. Internal audit have rapid and effective mechanisms in place for the escalation of issues requiring senior management attention?	()	()	()	()

Overall

11. Internal audit has added value to the organisation? How?	()	()	()	()
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D. Comparison of XYZ Plc's internal audit function with other internal audit functions you may have experience of:

Risk	Comments
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