



Promoting Professionalism in Accountancy

**INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF
UGANDA**

THE STRATEGIC INTERNAL AUDITOR

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ABOUT ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) is the National Professional Accountancy body in Uganda. The functions of the Institute, as prescribed by the Accountants Act, 2013 are to regulate and maintain the standard of accountancy in Uganda; and to prescribe and regulate the conduct of accountants and practicing accountants in Uganda. ICPAU has over 3,000 registered members and over 8,000 active students going through the Institute's examinations scheme at various levels of completion.

Vision

To be a world class professional accountancy institute

Mission

To develop, promote and regulate the accountancy profession in Uganda and beyond, in public interest

Core Values

- Professional excellence
- Accountability
- Integrity
- Innovation

DISCLAIMER

This Paper contains general guidance to help internal auditors transform into trusted advisors of the organisations in which they are employed.

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TABLE OF CONTENTS

1.0	BACKGROUND.....	5
2.0	THE TRUSTED ADVISOR	5
3.0	BECOMING A STRATEGIC INTERNAL AUDIT FUNCTION.....	6
3.1	Working more closely with other lines of defence	7
3.2	Proactive involvement in key initiatives	7
3.3	Alignment and Engagement with stakeholders.....	7
3.4	Assessment of third party relationships	7
4.0	STRATEGIC PLANNING PROCESS FOR INTERNAL AUDIT.....	7
4.1	Develop mission and set vision	7
4.2	Understand organisational plans and assess needs	8
4.3	Perform a SWOT analysis to identify gaps	8
4.4	Define initiatives to fill gaps and develop a roadmap	8
4.5	Ensure stakeholder alignment and develop communication plan.....	8
4.6	Identify key performance indicators to measure success	8
5.0	ATTIBUTES OF A STRATEGIC INTERNAL AUDITOR	9
5.1	Professional Attributes.....	9
5.2	Relational Attributes	9
5.3	Personal Attributes	10
6.0	CONCLUSION.....	10

1.0 BACKGROUND

The current business environment is constantly evolving forcing organisations to change their priorities accordingly. Disruptive technologies and the trends impacting business are expected to intensify in coming years, making markets even more dynamic, competitive, and opportunistic. Organisations today are spending more time on strategic issues and seeking more help from those with strategic capabilities.

Successful organizations will need to be agile and accelerate their decision making in an environment where prolonged periods of rapid change will be the new norm. This has created a unique opportunity for internal auditors to help their organisations both manage risks and achieve their strategic goals. Consequently, internal auditors need to stay dynamic in order to develop audit plans and conduct audits aligned with the business changes.

The scope of the internal audit function is gradually evolving from mere assurance over controls to also include activities focused on value enhancement, with a focus on long-term shareholder value, risk identification and optimisation, including strategic risks. Besides the pressure to meet growing stakeholder expectations, internal auditors have pressure to adapt to new and rapidly emerging risks and to keep up with new technologies and threats. This implies a shift for internal audit from looking back at past performance to a more forward-looking approach with the goal of adding value to the strategic decision-making process and ensuring that strategic objectives are achieved.

Internal auditors need to rethink the way they audit. The constantly evolving current risks and emergence of new risks creates a sense of urgency to audit at the speed of risk in order to meet the needs of key stakeholders. This also requires revising the overall internal lifecycle, from audit planning to reporting as well as developing non-traditional audit techniques to ensure they timely reflect the evolving risk profile of transformation programmes.

2.0 THE TRUSTED ADVISOR

Today's internal auditor should strive to become a trusted advisor who responds to emerging and strategic risks, adds value to the organization, and realizes untapped potential. The internal audit function needs to take an objective look at where it is and develop a road map that will move it towards trusted advisor status.

Each step closer to trusted advisor status can enable the internal audit function to contribute more to the organization's long-term success, attract and develop top talent, and provide a more rewarding experience for the internal audit team.

2.1 A Need for Foresight

Internal audit has the opportunity to inform and shape the critical decisions that management makes, and in so doing enable the organisation be better prepared to deal with future events. Many internal audit functions will need to transform themselves to provide foresight. This requires that internal auditors recognize the opportunity, prepare themselves, and rise to the occasion.

Internal auditors should be ready to not only provide assurance, but also to advise and anticipate risks. It is important for internal auditors to take what they are seeing from a historical perspective and apply it to the future. Internal auditors may be able to identify

emerging risks or trends and communicate that insight to the relevant stakeholders. Whether an organization is launching a new product or service or implementing a new technology system, internal auditors should be involved early to ensure that appropriate steps are taken, anticipate risks, and advise on controls and processes.

Internal audit must be proactive. Taking learnings from the assurance work, analysing them, and using them to identify risks before things actually happen is what sets forward-thinking internal auditors apart from the rest.

2.2 How to Gain Foresight

Internal audit professionals must become more aware of, and educated on, business trends, disruptive technologies, the movements of competitors, and alternatives and must be able to anticipate forward-looking risks. This will require greater industry perspective, stronger interactions between internal audit and the business, greater leverage of subject-matter experts, and advanced risk identification techniques. Internal audit must shift from the traditional and conventional to being more strategic and focused on what might impede the organization's most important business objectives.

2.3 Strategy Involvement

The success of an organization may be determined by an ability to anticipate change, to make the right decision and to execute ahead of the competition. An ability to quickly contemplate the potential risks and benefits of multiple "what if" scenarios will become key to effective decision-making and execution.

There is a clear correlation between stakeholder perception of value and proactive involvement from internal audit on strategic initiatives. Senior management and the board see internal audit functions as contributing significant value to their organisations, where internal audit is more often involved in the most important business initiatives. In order to contribute significant value to the business, internal audit function will need to be involved in key areas, ranging from the implementation of new privacy and security strategies, to cost-reduction initiatives and new product and service development.

This does not mean that internal audit loses its independence by providing input on what the strategic initiatives should be. Rather, internal audit is proactive in providing input on risks related to critical company initiatives and in advising on processes, governance, and controls ahead of the risks' occurrences.

3.0 BECOMING A STRATEGIC INTERNAL AUDIT FUNCTION

The internal audit function should align closely with the strategic direction of the organisation and provide proactive perspectives on risk. Internal audit brings value to the organisation by identifying, discussing and effectively mitigating risks. Additionally, the internal audit function supports the strategic decision making process by providing management with a more holistic understanding of risk. The internal audit plan should be flexible and constantly evolving, depending on the risks facing the organization.

In order to remain valuable contributors to their organisations, internal auditors can be aligned with critical business strategies in a variety of ways;

3.1 Working more closely with other lines of defence

Using this approach, internal auditors meet regularly with risk management, compliance and other second line of defence leaders to discuss the work being performed, synergies that may be accomplished, and where they can better align. The internal audit function supports the risk management function in the assessment of emerging risks and can provide input about other key risks to the organisation. Better alignment with the risk management function results in less risk management fatigue as well as efficient in enterprise risk management.

3.2 Proactive involvement in key initiatives

Internal audit has a purview of all key initiatives but is not actively involved in every one of them. Internal audit rates the risks associated with the initiatives and engages more deeply in those with the highest residual risk. Internal audit reviews project plans and milestones, reports to management and the audit committee, and provides an independent perspective on the status of the key initiatives and the risk profile as they progress.

3.3 Alignment and Engagement with stakeholders

Strategic internal auditors proactively engage with stakeholders. To accomplish this, the internal audit function be structured to gain a better understanding of the business and foster deeper relationships within the organization. Internal audit should be aligned to business segments, to functional groups or, in a matrix organisation, to both product and business lines. This enables internal auditors to foster deep relationships, establish open communication lines, keep active vigilance on the business, and to more effectively understand and identify new and emerging risks.

3.4 Assessment of third party relationships

As organisations increasingly adopt outsourcing of certain functions, it is imperative that internal auditors become involved in the engagement of third parties. The major concern should be the assessment of the third party processes and controls for their levels of data security and privacy.

4.0 STRATEGIC PLANNING PROCESS FOR INTERNAL AUDIT

Just as the organisational strategic process is done to define corporate strategy, internal auditors need their own strategic planning process to determine the requirements for accomplishing their vision and the steps they must take to get there. The strategic plan provides a clear description for internal audit to for maintain its relevance and value with continuous business transformations. The process may differ from organisation to organisation, but generally, the process for developing an internal audit strategic plan consists of the following steps;

4.1 Develop mission and set vision

Effective planning begins with goal setting. Organisational goals and objectives are actively changing and internal auditors must respond by planning how it will deliver future value to the organisation. Internal audit's mission and vision together should focus on what the mandate of the internal audit function is, and what it is likely to be expected in the future. This process requires the internal audit function to understand what stakeholders expect or

desire for the internal audit function. It is also important that the mission and vision be continuously revisited in order to address emerging risks.

The final element is communication of that mission and vision to stakeholders, ensuring that stakeholders are aligned with internal audit leadership's view of the mission and vision.

4.2 Understand organisational plans and assess needs

Once there is alignment on the internal audit mandate, the function must now go through the process of understanding what that mandate means for its organisation and function. This requires internal auditors to thoroughly understand the organisation's key initiatives, the new technologies to be developed or implemented, possible emerging risks, the business model, products or services offered and the budgets tied to the company's strategies and initiatives.

Following the understanding, a tactical alignment between the organisation's plans and initiatives and the proposed internal audit plan should occur. This process is executed through an assessment in the form of an analysis of strengths, weaknesses, opportunities and threats.

4.3 Perform a SWOT analysis to identify gaps

The SWOT analysis should consider factors internal to the audit function and those external with stakeholders. This analysis should make evaluations across people, structure, process and technology. Upon completion of the analysis, the internal audit function should now consider the future needs and develop a gap analysis. Findings of the SWOT analysis will serve as an input for the roadmap for the internal audit function's ability to successfully execute its mission, vision and mandate.

4.4 Define initiatives to fill gaps and develop a roadmap

The results of the SWOT analysis and gap analysis serve as the basis for developing a set of internal audit initiatives covering the three major areas of execution: people, process and technology.

The initiatives should be prioritised and set into a timeline that is realistic to achieve yet does not hinder the ability to deliver on the mission and vision. Developing a roadmap that defines how and when the internal audit function will achieve its objectives will help ensure successful execution of the strategic plan.

4.5 Ensure stakeholder alignment and develop communication plan

When the internal audit function's roadmap and key initiatives have been defined, validation with stakeholders is necessary to determine whether it supports and is aligned with the business. This will necessitate an ongoing communication plan for the internal audit function. The communication plan should allow continuous feedback to improve the execution and evolution of the roadmap.

4.6 Identify key performance indicators to measure success

Monitoring progress against the strategic plan is critical to its success. Key performance indicators should be developed for ongoing monitoring and communication on the progress of the roadmap and internal audit initiatives.

5.0 ATTIBUTES OF A STRATEGIC INTERNAL AUDITOR

The internal audit function must comprise resources with deep business acumen and both industry and technical skills. Without a foundation built on the right talent, the function is limited to executing only up to its existing capabilities – not striving to deliver the value it should.

There are fundamental skills that internal auditors should possess in order to align their role of providing assurance over risk with strategic objectives of their organisations. These skills can generally be grouped as professional, relational and personal attributes.

5.1 Professional Attributes

5.1.1 *Technical Expertise*

Strategic auditors ought to have an appropriate range and depth of knowledge of best quality practices, regulations, compliance requirements, standards and of relevant technology. Areas of technical expertise for internal auditors include understanding the IPPF (the IIA's International Professional Practices Framework), required internal audit capability, business acumen, governance, risk and compliance.

5.1.2 *Critical Thinkers*

Strategic internal auditors should have the ability to actively synthesize, apply and evaluate information in order to arrive at well-reasoned conclusions or solutions. They should have the ability to look for themes and patterns of repeat issues that highlight root causes as well as have a more active role in assessing and evaluating strategic risks. To achieve this, internal auditors need to demonstrate an agile and flexible mindset and to understand the risks associated with the strategic direction of the business and what this involves from a transformational change perspective.

5.2 Relational Attributes

5.2.1 *Dynamic Communicators*

Internal auditors are often required to deliver difficult, uncomfortable messages. Because of this, internal auditors should develop the ability to deliver those messages with sensitivity to the other person's concerns and abilities. This will make the internal audit reports more palatable and more likely to be considered constructive.

5.2.2 *Insightful Relationships*

Auditors should always have in mind a long-term perspective and expectation that internal audit should add value to the organisation. Building a trusting relationship with management and the audit committee is not easy. Efforts should always be made by internal auditors to carefully cultivate these relationships since they are so fragile and not easily restored.

5.2.3 *Inspirational Leaders*

Internal auditors need to be seen as leaders within their organisations. Their unique positions enable them to connect with management and employees throughout the organisation. Strategic internal auditors should have the ability to seize opportunities to

impart insights and advice in a way that motivates change. They should have the ability to be inspirational change agents.

5.3 Personal Attributes

5.3.1 *Ethical Resilience*

Ethics plays a significant role in internal audit performance. Internal auditors cannot accomplish their mission without a diligent, unceasing commitment to ethical behaviour. This can be achieved through being resilient, even when what they are proposing or reporting is unpopular. Strategic internal auditors should have the ability to withstand the challenges to their ethical convictions and bounce back stronger than ever.

5.3.2 *Intellectually Curious*

Intellectual curiosity is a critical skill for internal auditors. Given the changing landscape of business, audit teams need to continuously rethink how they perform the audits to avoid the “same as last year” approach to auditing.

5.3.3 *Open-Mindedness*

Internal auditors should always keep an unbiased mental attitude and perform their work in an uncompromising manner in order to get to the heart of what is happening in the organisation. Auditors can comply with this principle by not accepting anything that may impair or be presumed to impair their judgment and by disclosing any facts that may influence activities under review.

6.0 CONCLUSION

The business environment is rapidly changing hence internal audit needs to catch up with the evolving risk landscape. Today’s internal audit function needs to move away from traditional auditing to focus on the risks associated with the strategic direction of the business so it is sought out as a major participant in the organisation’s strategic initiatives. Internal auditors need to stay dynamic in order to develop plans and conduct audits that are aligned to the business changes.

Internal audit can move toward a more proactive involvement in strategic initiatives. This requires a strategic planning process for the internal audit functions that advances its capabilities in alignment with broader business imperatives. Internal audit then has a roadmap from which it can develop talent, drive better alignment, invest in technology, and deliver even greater value.