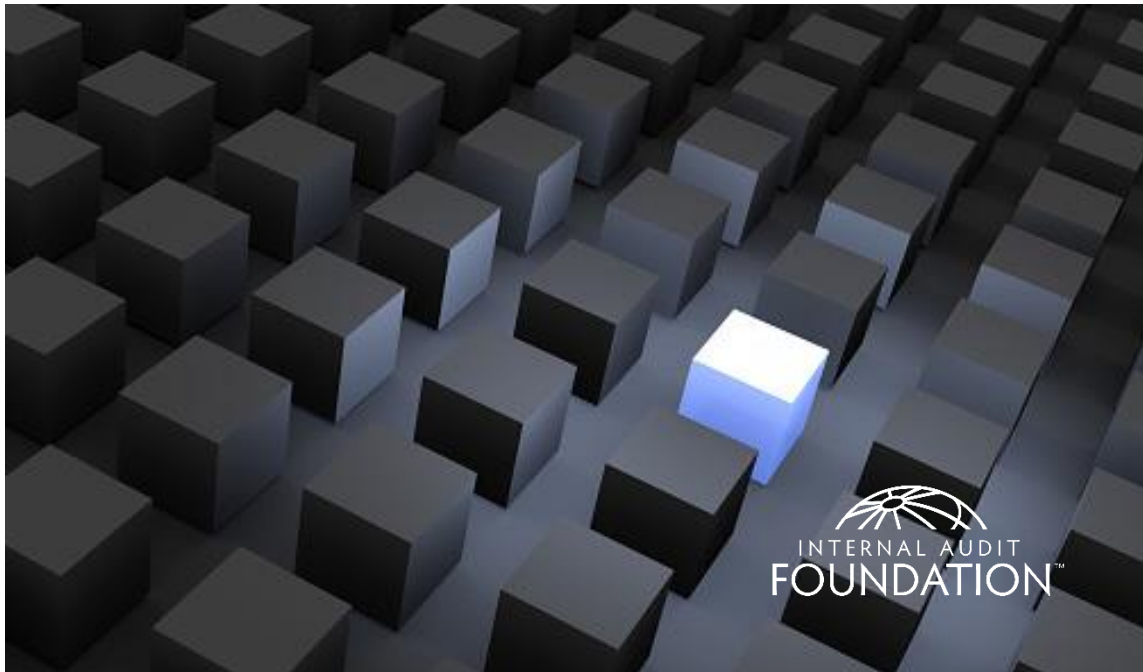


Aligning Internal Audit Activities and Scope to Organizational Strategy

**How the Business Environment and
Organizational Strategy Impact Internal
Audit**

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Contents

- Executive Summary3
- Introduction4
- 1 Dynamism of the Internal Audit Plan5
- 2 Growing Importance of IT and Strategic Risks9
- 3 Growing Importance of IT Skills14
- 4 Growing Demand of Consulting Activities17
- 5 Impact of the Strategic Profiles20
- Conclusion24
- About the Authors26
- About the Internal Audit Foundation27

Executive Summary

The current business environment is changing constantly, and many organizations are shifting their strategy to cope with this vibrant environment. How does change impact the internal audit function? At which levels does the organizational strategy impact internal audit's scope and role? These questions are the basis of this research project.

To understand the alignment between strategy and the internal audit function, this research project was divided into two phases. First, chief audit executives (CAEs) and management committee members were interviewed. Second, a survey was submitted to internal auditors through the IIA network in North America. The people interviewed or surveyed operate in diverse industries in financial and nonfinancial sectors.

The analysis merges the interview responses with the survey findings. Consequently, the following results emerge:

- The changing environment requires the internal audit function to have dynamic planning to be able to adapt at the same speed as the strategic risks change.
- Strategic risks become increasingly important. Nevertheless, they are not considered to be a top priority by the internal audit function.
- The business environment becomes increasingly digital and IT risks grow in importance.
- Digitization is affecting changes in the skills required of internal auditors. IT skills (particularly data analytics skills) are increasingly considered among the most important.
- Demands for advisory and consulting services have increased over time. This is a consequence of the changing and digitized business environment.
- Specific strategic profiles have an influence on the outsourcing of internal audit activities. This involves strategies based on mergers, acquisitions, unrelated diversification, and vertical integration. Outsourcing internal audit activities requires a higher level of coordination between internal auditors because of the mix of internal and external staff.
- Organizations going through major structural changes (due to mergers, acquisitions, unrelated diversification, and vertical integration) seem to outsource more of their internal audit activities. This can be seen as a (temporary) solution to compensate for missing skills or a significant increase in the audit workload due to these structural changes.
- The level of credibility of the internal audit function given by auditees, management, and board impacts the internal auditors' understanding of the strategy.

The next sections develop these findings in detail by providing statistical results and responses from the interviews collected during this research. Each section provides a list of practical implications for internal audit practitioners.

Introduction

The objective of this research project is to investigate how the internal audit function can align its activities to the organizational strategy. The project is important in the current context where the business environment is increasingly changing and vibrant. The purpose is to investigate the impact of the strategy on the activities of the internal audit function and understand which skills are required for the internal auditors to align their activities to the organizational strategy.

This project includes two major parts. In the first phase, chief audit executives (CAEs) were interviewed. For two-thirds of the organizations included in the sample, one member of the management committee was also interviewed. The purpose was to gain a deeper understanding of the relationship between the internal audit function and the organizational strategy. Our sample includes six organizations where the CAE and one member of the management committee were interviewed and seven organizations where only the CAE was interviewed. In total, the perceptions and opinions of 19 people were collected. Overall, the content of the interviews of both the CAE and the management committee member from the same company were in line.

In the second phase, a survey¹ was submitted to internal auditors through the IIA network in North America. A total of 180 internal auditors responded to the survey. The participants operate in diverse industries and work for different types of organizations (listed, non-listed, etc.). Of the respondents, 81% are CAEs, 18% are directors or managers, and 1% are audit staff.

The findings discussed in the next section show the results that emerge from the interviews and the survey. A list of practical implications is offered at the end of each section, providing advice for practitioners.

¹ The items used in the survey were inspired by the following research:

- IIA (2015). CBOK Practitioner Survey Question List
- Sarens, G. and Swinkels, W. (2015). Internal Audit Strategy: correlations between context, strategy and perceived added value.
- Capgemini Consulting (2015). Organizing for Digital: Why Digital Dexterity Matters.

1 Dynamism of the Internal Audit Plan

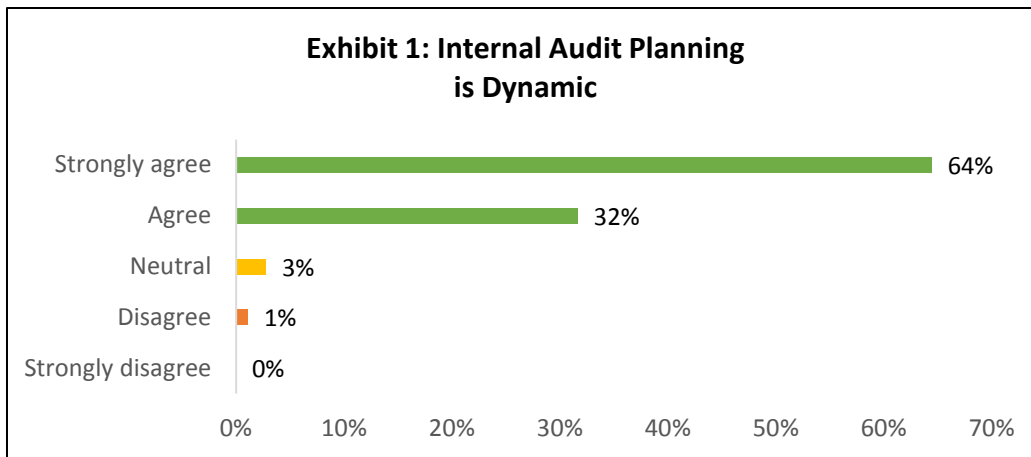
The current business environment is changing constantly, and companies must change their priorities accordingly. As a consequence, internal auditors need to stay dynamic in order to develop a plan and conduct audits that are aligned to the business changes. The dynamism of the internal audit function involves two aspects.

First, the time between the risk assessment and the start of the audit can be lengthy, often stretching to several months. If too much time goes by, there is greater likelihood that the audit is out of scope. Internal audit should regularly revise the plan or shorten the time between the risk assessment and the beginning of the audit. This way, the audit plan will be more aligned to the organization's strategy and objectives.

Second, most of the interviewees say that they include some buffer days in their planning to allow for "surprise audits." This could include special requests from management or the audit committee that were not included in the initial internal audit plan validated by the audit committee. These requests are related to unforeseen events, such as a case of fraud or operational accidents. However, they could also be related to environmental or strategic changes. For instance, the organization could decide to shift priorities so that some audits that were initially planned become less relevant, or that a new audit should be included to cover an emerging risk or a risk that takes priority.

The dynamism of the internal audit plan is especially needed in this fluctuating business environment where situations can change quickly. Some interviewees point out that the internal audit function sometimes seems disconnected from the business reality. Therefore, increasing the dynamism would enable internal auditors to be closer to the strategic objectives of the company and increase their capacity to add value.

Most of the survey participants indicate that their internal audit plan is dynamic (see **exhibit 1**). The term "dynamism" as stated above refers to the degree to which planned engagements can be postponed or advanced due to changing priorities.



Note Exhibit 1: Q5: Internal audit planning is dynamic (planned engagements can be postponed or advanced to accommodate changing priorities). n = 180.

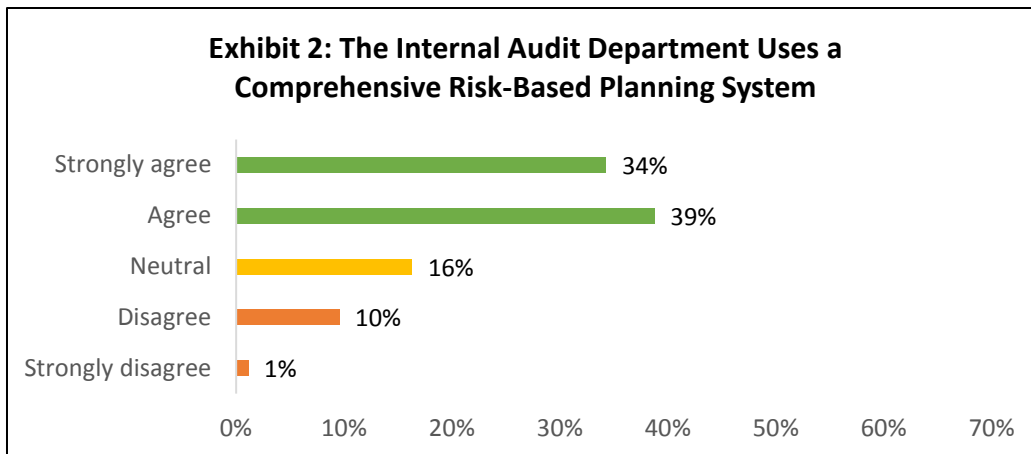
Unsurprisingly, the survey results also indicate that nearly all participants (96%) use a risk-based approach to define the internal audit plan. The interviews show the same trend. The link between the strategy and the internal audit function relies on the risks. The enterprise risks are tied to the strategy and the internal audit engagements are based on the enterprise risks. This approach is the basis for an internal audit function to be aligned to the strategy.

However, most of the participants indicate that they use comprehensive risk-based planning (see **exhibit 2**), meaning that there is a rotation system behind the audit plan. The rotation system, as highlighted by some interviewees, could make the plan less dynamic because the rotation implies that audit engagements occur after a defined period of time. As a result, the internal audit could come too soon or too late for an audit engagement. For instance, internal auditors could conduct an engagement before a major change in a business process. Alternatively, they could audit a department long after the implementation of the business process because they first have to perform other audits planned in the rotation.

Moreover, rotational planning often means that every part of the organization should be audited at least once every (defined number) years. As stated by an interviewee, this rotation could lead the internal auditors to conduct audits on processes that are very stable—time that could have been allocated to riskier areas of the organization.

“We have an audit universe that is composed of 70 auditable units and our goal is to cover every high-risk auditable unit every three years and the other every five years. {...} We have auditable units where there is no indication that there is a risk, but we lose time in order to respect our covert strategy.”

—CAE, Financial Institution, Belgium



Note Exhibit 2: Q5: The internal audit department uses a comprehensive risk-based planning system (a rotation system exists behind the audit planning). n = 178.

Survey results indicate that internal auditors often consider their planning to be dynamic, but there is still the need to increase their level of dynamism by removing the rotational aspect of planning.

Finally, increasing the dynamism of internal audit could be seen as an opportunity for the function to increase its credibility. Being able to address unexpected demands from management or the audit committee could improve the relationship with these stakeholders.

“If the management committee would like the internal audit department to audit a particular activity that is not among our current priorities, we adapt our approach, with a limited budget, to perform a review and provide the management committee an assurance on this activity. This favors the trustworthy relationship because when we ask something in turn, it is more likely we will get a positive answer.”

—CAE, Services, Belgium

In conclusion, the dynamism required by internal audit is crucial for the alignment between the strategic goals and the audit, particularly in this current environment that is changing constantly. Maintaining or increasing the dynamism of the internal audit plan is an opportunity for the internal auditors to improve the relationship with their stakeholders.

Practical Actions:

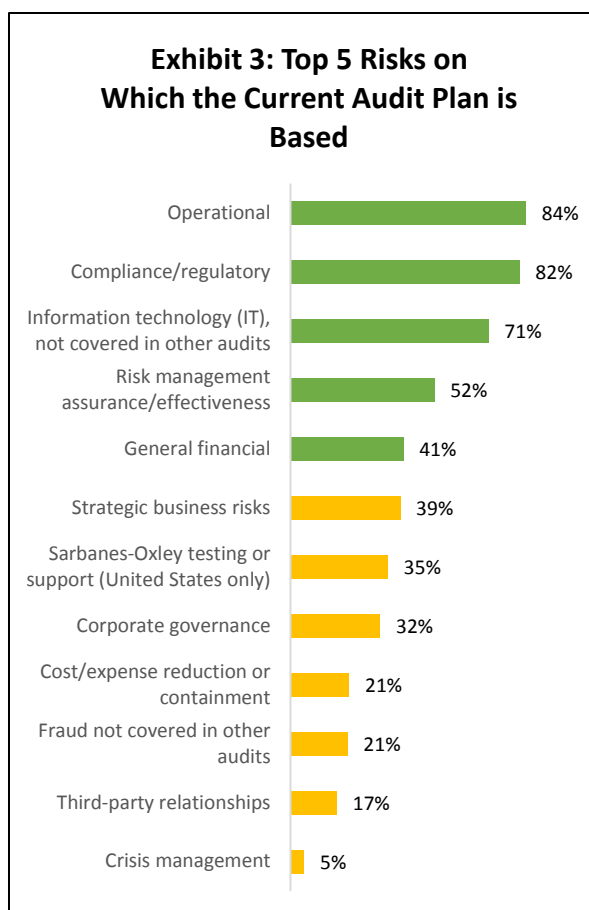
- ✓ Reduce the time between the risk assessment and the start of the audit.
- ✓ Allocate time to regularly revise the internal audit plan during the year.
- ✓ Avoid the rotational risk-based plan to dedicate more time to riskier areas.
- ✓ Include buffer days for surprise audits.

2 Growing Importance of IT and Strategic Risks

Survey participants were asked two questions:

- What are the top five risks on which your current audit plan is based?
- What do you anticipate your top five risks will be in your audit plan three years from now?

On the one hand, the purpose of these questions was to evaluate which risks are currently considered to be the most important. On the other hand, it indicates potential changes in priorities in the coming years. For each category of risks, **exhibit 3** and **exhibit 4** show the percentage of participants who selected it.



Note Exhibit 3: Q2: What are the top five categories of risks on which your current audit plan is based? $n = 180$.



Note Exhibit 4: Q3: What do you anticipate your top five categories of risks will be in your audit plan three years from now? $n = 180$.

While operational risk, compliance/regulatory, and IT are brought to the forefront as current risks, results show a decrease of operational and compliance/regulatory risks and an increase in IT risks in the next three years. Although operational risks remain the first focus, IT risks take second place. There is an increase of the risk management assurance and strategic risks that complete the top five three years from now. Conversely, the general financial risks are considered to be less important in the future.

First, these trends show the influence of the changing environment on the strategic focus points for all sectors. In the interviews, most of the interviewees indicate IT risks are becoming an increasingly important factor in the internal audit planning. They believe this trend is a consequence of the digitization of companies at two levels. On the one hand, the business environment is more digital-focused. For instance, interviewees mention the growing importance of the cybersecurity risk that sectors could face. In this perspective, internal processes are becoming more and more digital.

“Our strategy is mainly oriented toward the digital. So we are striking out with a certain speed in the digital channels and we substitute the physical channel with the digital channel. Saying that, the very important risks for us are IT and cybersecurity. Thus, I am always worried, we have issues with having the relevant competencies on board to handle all this stuff and to stay one step ahead of the criminal organizations.”

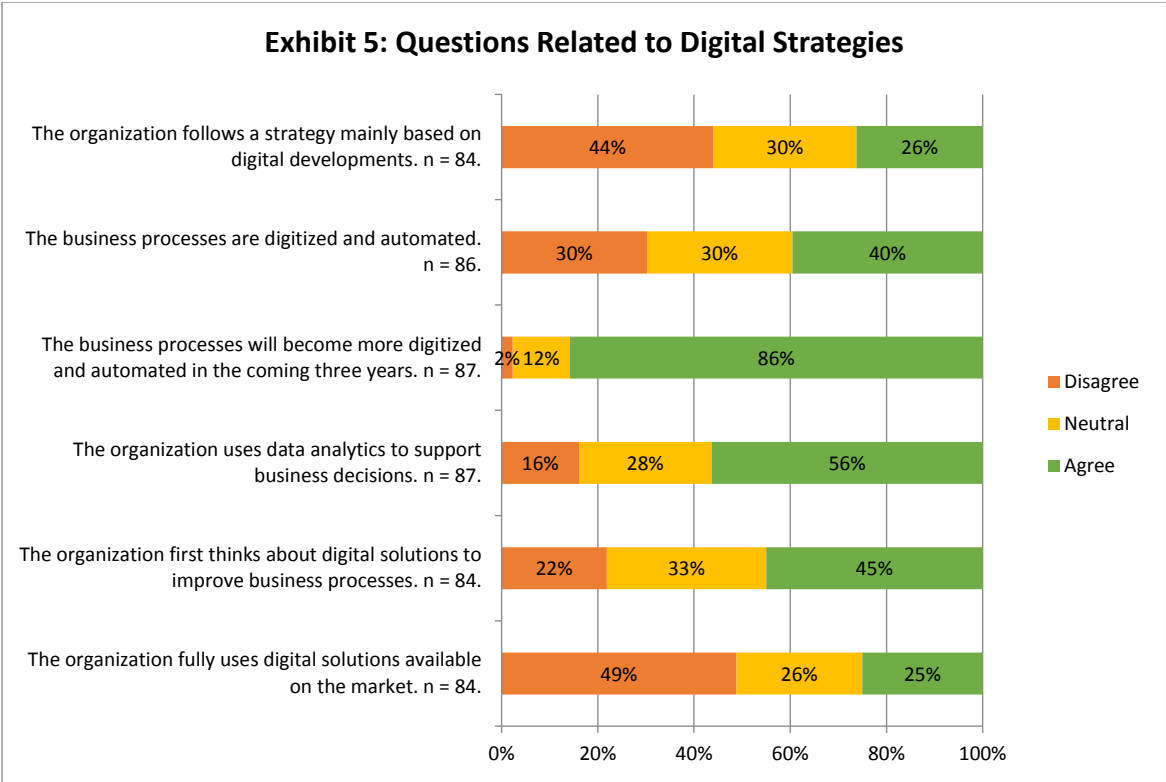
—CAE, Financial Institution, Belgium

On the other hand, organizations are increasingly embracing a digital strategy, such as developing a new business line dedicated to digital services to reach consumers, which leads to changes in their processes and adapting their business model.

“We have to integrate increasingly to digital to be able to better adapt to the final customer. It requires a change in terms of behavior and tools. At the end, [the digital] will have to be integrated to the strategy.”

—CAE, Automotive, Belgium

Exhibit 5 shows the results of the survey concerning the questions related to digital strategies.

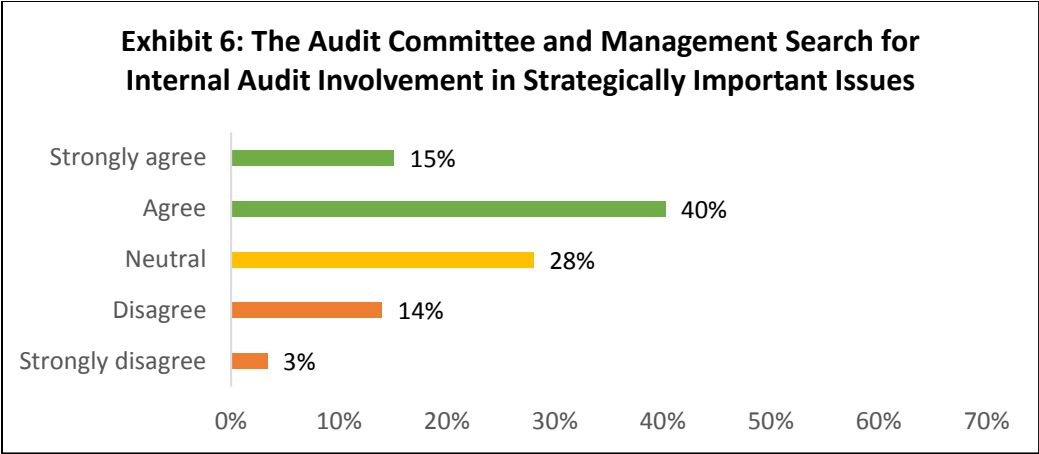


Note Exhibit 5: Q17: The above items were included in the question. n = between 84 and 87 depending on the items.

These results indicate that a minority of organizations base their strategy on digital developments. Nevertheless, digital is becoming increasingly important and will influence the internal audit function in the short term. As said by most of the interviewees, digitization is increasingly becoming the focus of the strategy of organizations, impacting both strategic and operational levels. This trend is clear in the results to the statement “The business processes are digitized and automated,” where only 40% agree, compared to the statement “The business processes will become more digitized and automated in the coming three years,” where 86% agree.

Second, these results show that the internal audit function is still strongly focused on operational risks. Even if this focus is decreasing compared to other risks, still 77% of the participants expect this risk to be the basis of their planning in the next three years. On the contrary, even if the strategic risks progressively grow in importance, both percentages (39% for the situation today and 54% for the situation in three years) remain relatively low. Indeed, The IIA stresses the fact that the internal audit function should be more involved in strategic risks. Consequently, these results show that organizations have to be more involved in the strategic risks and include engagements related to them in their planning.

Another survey question evaluates the involvement of the internal audit function in strategically important issues (see **exhibit 6**).



Note Exhibit 6: Q14: The audit committee (or equivalent) and board of management actively search for internal audit involvement in strategically important issues. *n* = between 179.

While 55% of the participants agree that they are involved in strategically important issues, 28% are neutral and 17% disagree. These results show that internal audit is not expected to be involved in strategically important issues in half the cases. This percentage appears to be in line with the perceptions of most interviewees (members of management committees and CAEs included) who believe the internal audit function should not be involved in the definition of the strategy because its independence could be jeopardized. Nevertheless, some interviewees believe internal audit can also lead management to modify its strategy.

“We adapt a little bit the strategy in function of the evolution of the business environment. The recommendations of the audit report of the previous year are one of the inputs in order to update the strategy.”

—Chief Corporate Officer, Financial Institution, Belgium

As a result, the involvement of the internal audit function in strategically important issues after the audit can be a source of added value for organizations. Management can view internal audit as a partner that helps to adapt the scope of the strategy to respond to risks. Nevertheless, these results appear to be relatively low given the privileged positioning of the internal audit function within the organization that could provide useful input to the strategy about risks.

In summary, the digitization of the environment has an impact on the importance of the IT risks that become increasingly important. Besides this observation, strategic risks are foreseen to be important in the next few years. However, these remain out of the top priorities of the internal audit function in nearly half of the cases because it is still mainly focused on operational and compliance risks. The same trend is observed concerning the involvement of internal audit in strategically important issues. It highlights a gap of added value for internal auditors that should give more importance to strategic risks.

Practical Actions:

- ✓ Dedicate more time to IT risks that become increasingly important.
- ✓ Increase the focus on strategic risks.
- ✓ Be aware that the internal audit function could lead management to modify its strategy in some situations.

3 Growing Importance of IT skills

The effects of the digitization of the business environment and the growing importance of IT risks have a strong influence on the type of profiles required for the internal audit function.

Survey participants were asked the following questions:

- What are the top five skills present in the internal audit department today?
- What do you feel the top five skills will be in the internal audit department three years from now?

The purpose of these questions was to analyze the skills that are present in the internal audit department at two points in time, CAE included and external providers of assurance and consulting services excluded. **Exhibit 7** and **exhibit 8** show the percentage of participants who selected each skill.



Note Exhibit 7: Q2: What are the top five skills present in the internal audit department today (chief audit executive included and external providers of audit and/or consultancy services excluded)? n = 180.



Note Exhibit 8: Q3: What do you feel the top five skills will be in the internal audit department three years from now (chief audit executive included and external providers of audit and/or consultancy services excluded)? n = 180.

Analytical/critical thinking and communication skills are the most cited skills needed both today and in the next three years. The last three main skills present in the internal audit department today are industry-specific knowledge, accounting, and business acumen. Major changes are anticipated in the next three years. First, the industry-specific knowledge and accounting skills are decreasing significantly. Second, data mining and analytics shows a huge increase and becomes the third main skill expected in three years. The last two are the business acumen and IT (general) skills. This shows that the internal audit department intends to increase IT skills (mainly data analytics) in the next three years. These results show the importance for organizations to develop new skills to meet the challenges initiated by the changing environment—especially digitalization. These trends are further explained in the interviews where interviewees believe IT skills are the future key competencies of internal auditors at the expense of finance and accounting skills.

“Today, I prefer to recruit someone who has digital skills rather than someone who has financial skills. An auditor who does not have advanced IT skills is going to have a lot of difficulties, be too slow, and not fast enough for the organization.”

—CAE, Engineering, Belgium

However, the results indicate that the average percentage for which internal audit uses data analytics in its engagements is about 17.43%. This shows that even if the use of data analytics is considered to be increasingly important, the effective use is relatively low and varies a lot from one organization to another. Indeed, the standard deviation for this question is about 18.79.

The skills related to cybersecurity and privacy are expected to increase considerably in three years. Of the survey participants, 10% selected cybersecurity as important today compared to 33% in the next three years. This might be an indicator that this skill could be increasingly important in the long run. During the interviews, interviewees mention the challenges that organizations could face in terms of cybersecurity risks while implementing digital strategies. However, they indicate that the knowledge required in cybersecurity is highly specific and often outsourced to an external provider of assurance and consulting services. These last responses are excluded in the score of these questions and could explain the fact that this skill is less present in the internal audit department even if it is considered to be important.

“In our department, there are two people who are specialized in data analytics. [...]. We try to have—as much as possible—reports that are substantive [...] We are able to make analyses that few departments are able to make, either because they do not have the competencies or because they do not have access to all the data. We have access to all, including all the systems.”

—CAE, Telecommunication, Belgium

In summary, the changes noticed in the previous section, such as an increasingly digitized environment that leads organizations to include digital in their strategy and give IT risks higher priority, have consequences on the required skills that the internal audit department should have. IT skills, and

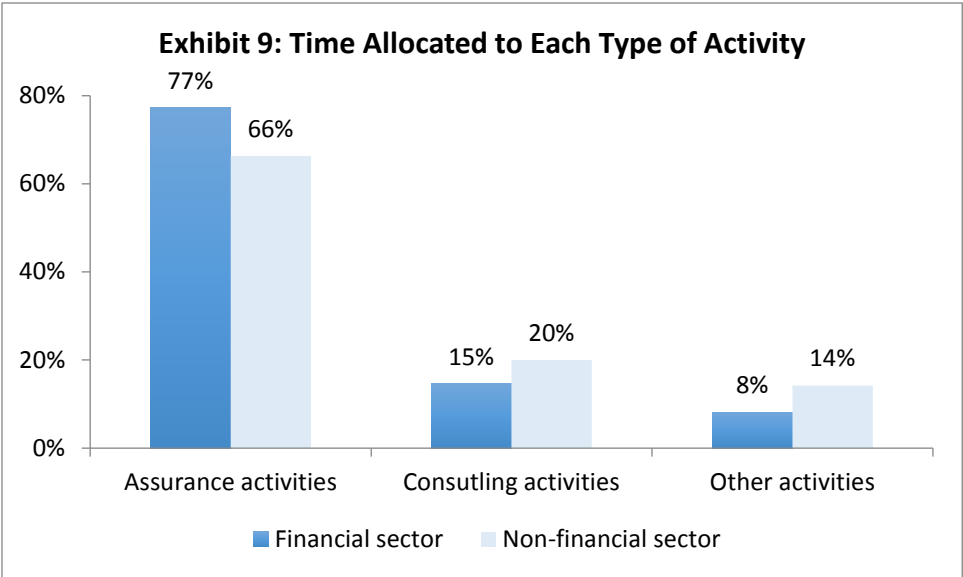
particularly data analytics skills, are becoming crucial for internal auditors in order to stay close to the strategy of the organization and to increase the quality of this function.

Practical Actions:

- ✓ **Develop the IT skills of the internal audit department, particularly the data analytics and cybersecurity skills.**
- ✓ **Use data analytics in all the internal audit engagements to make the internal audit reports substantive.**
- ✓ **Orient the recruitment of new internal auditors toward IT skills.**

4 Growing Demand of Consulting Activities

Survey participants were asked to indicate the percentage of work allocated to assurance activities, consulting activities, and other activities (such as investigation, other engagements, etc.). The results show that the assurance activities represent the main part of the internal audit activities (see **exhibit 9**). Nevertheless, there is a difference between organizations from the financial and nonfinancial sectors. While the percentage of assurance activities is higher in the financial sector, the percentage of consulting and other activities is higher in the nonfinancial sector. This could be explained by the fact that the financial sector is more regulated. In the interviews, some interviewees indicated that the financial institutions have to issue more reports to the regulators than organizations that operate in other sectors. Consequently, the internal audit scope is likely to be oriented toward assurance activities.



Note Exhibit 9: Q1: What is the percentage of work allocated to each type of activity performed by the internal audit department? The total must be equal to 100%. *n* = 56 for the financial sector and *n* = 124 for the non-financial sector.

However, it emerges from the interviews that the percentage of consulting activities is growing in many organizations. In the current changing environment, most interviewees believe that consulting activities bring more added value to the company.

“We used to do way more assurance audits in the past but now because of all the flux, because of all the change, management comes to us quite a bit to seek advice. So, we do a lot more advisory projects.”

—CAE, Financial Institution, United States

“The demands of internal audit in our department have increased dramatically over time with the rapidly changing economy.”

—CAE, Real Estate, United States

Survey results show a significant negative association between the percentage of assurance activities and:

- The level to which the organization uses data analytics to support business
- The level to which an organization first thinks about digital solutions to improve business processes

The opposite correlation is observed when these last items are compared to the percentages of consulting and other activities. These results (see **exhibit 10** and **exhibit 11**) suggest that organizations with a digital mindset tend to have internal auditors who act more as consultants or perform other types of activities. In regard to the interviews, organizations that are oriented toward a digital business model and face a lot of change are more likely to ask internal audit to be more of an advisor by conducting consulting engagements or other special audits.

Exhibit 10: Correlations Between Work Allocated to Different Internal Audit Activities and the Use of Data Analytics to Support Business Decisions

	The organization uses data analytics to support business decisions.
The percentage of work allocated to assurance activities.	-.262*
The percentage of work allocated to consulting and other activities.	.262*

Note Exhibit 10: Pearson correlations range from +1 to -1. A negative correlation means that as one goes up, the other goes down. *n* = 87.

**p* < .05 (two-tailed significance).

***p* < .01 (two-tailed significance).

Exhibit 11: Correlations Between Work Allocated to Different Internal Audit Activities and the Fact that the Organization First Thinks About Digital Solutions to Improve Business Processes

	The organization first thinks about digital solutions to improve business processes.
The percentage of work allocated to assurance activities.	-.315**
The percentage of work allocated to consulting and other activities.	.315**

Note Exhibit 11: Pearson correlations range from +1 to -1. A negative correlation means that as one goes up, the other goes down. *n* = 84.

**p* < .05 (two-tailed significance).

***p* < .01 (two-tailed significance).

In conclusion, the changing business environment and the strategy that organizations develop to face it seem to have an influence on the internal audit function—particularly on the role of the internal auditors that management expects. In this perspective, it appears that internal auditors who want to embrace a consulting mindset are more likely to add value to the organization.

Practical Actions:

- ✓ **Dedicate time to consulting and advisory activities to help the organization face the changing business environment.**
- ✓ **Outsource the audit of a process to a third party when internal auditors play the role of consultant.**

5 Impact of the Strategic Profiles

Participants answered questions related to the types of strategy conducted by the organization for which they currently work. Correlations were performed between these questions and the ones related to internal audit activities. Here are the main results.

First, there are positive correlations when the percentage of outsourced internal audit activities is compared to the different types of strategies (see **exhibit 12**), meaning that the strategy conducted by organizations could influence the level of outsourcing of internal audit activities.

Exhibit 12: Correlations Between the Percentage of Internal Audit Activities that Are Outsourced and Different Strategic Profiles

	On average, what is the percentage of internal audit activities that are outsourced to an external provider of audit and/or consultancy services?
The organization uses a strategy based on mergers with other organizations. <i>n</i> = 83.	.370**
The organization uses a strategy based on acquisitions of other organizations. <i>n</i> = 85.	.272*
The organization uses an unrelated diversification strategy (the organization wants to diversify its offer by entering new businesses unrelated to the core one). <i>n</i> = 86.	.274*
The organization uses a vertical growth strategy (the organization integrates organizations upward or backward the value chain (i.e., a supplier, a retailer, etc.). <i>n</i> = 84.	.286**

Note Exhibit 12: Pearson correlations range from +1 to -1. A negative correlation means that as one goes up, the other goes down. *n* = between 84 and 86.

**p* < .05 (two-tailed significance).

***p* < .01 (two-tailed significance).

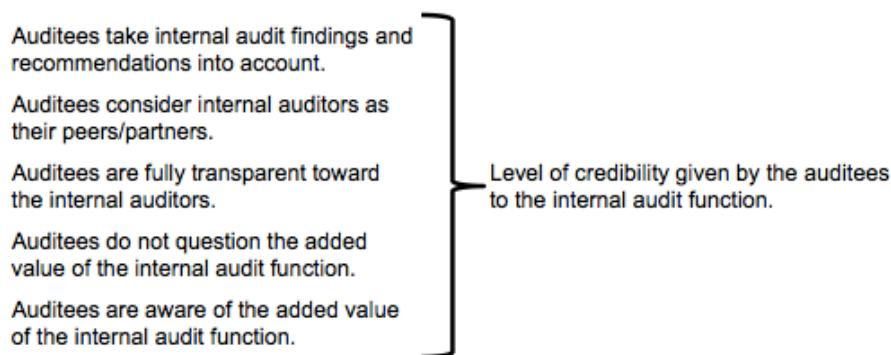
These significant results show that the type of strategy has an influence on internal audit activities. It means that organizations conducting a certain type of strategy could either lead internal audit to provide assurance on new risks or lead the organization to demand more engagements of the internal audit function. On the one hand, an organization that follows an unrelated diversification enters into new businesses, which are not related to its core business. Consequently, it is more likely that internal audit will not have specific competencies to perform the engagements related to the new business activity. On the other hand, organizations conducting mergers and acquisitions or using a vertical growth have to integrate some business activities together, and the demand for internal audit could increase for a given period of time. As a result, internal auditors could call on external providers of consulting and assurance activities, either for some specific profiles or to include staff for the changing period.

“We did a couple of mergers and acquisitions. When we did these mergers and acquisitions, we had a lot more changes.”

—CAE, Financial Institution, United States

Consequently, CAEs have to deal with the integration between the internal and the external staff. The outsourcing of internal audit activities requires a higher level of coordination during the engagements because of the mix of internal staff used and the external staff that has to adapt to it. Second, the scores of the questions related to the auditees’ perception toward internal auditors show the same trends. Therefore, these questions were grouped by the mean of factorial analysis in one item called “Level of credibility given by the auditees to the internal audit function” (see **exhibit 13**).

Exhibit 13: Items Grouped Under the Level of Credibility Given by the Auditees to the Internal Audit Function



The scores of the participants concerning their understanding of the organizational strategy are positively correlated to the scores of the items shown in **exhibit 14**.

Exhibit 14: Correlations Between Understanding the Organizational Strategy and the Level of Credibility Given by the Auditees or by Top Management to the Internal Audit Function

	You feel that you have a good understanding of the whole organizational strategy of the organization.
Level of credibility given by the auditees to the internal audit function. <i>n</i> = 87.	.294**
The audit committee (or equivalent) and board of management actively put the internal audit function upfront in the governance debate. <i>n</i> = 85.	.417**
The audit committee (or equivalent) and board of management actively search for internal audit involvement in strategically important issues. <i>n</i> = 87.	.348**

Note Exhibit 14: Pearson correlations range from +1 to -1. A negative correlation means that as one goes up, the other goes down. *n* = between 84 and 86.

**p* < .05 (two-tailed significance).

***p* < .01 (two-tailed significance).

On the one hand, these results indicate the importance of the credibility given by the auditees and their relationships with the internal audit function in understanding the organizational strategy. One interviewee highlights this importance by saying that their internal audit function created a specific level in the department, the “audit practice leaders.” These internal auditors are the contacts with specific departments. They are allocated to a department according to its profiles and specific expertise. This enables the internal auditors to be closer to the auditees and, as a result, to more fully understand their priorities in terms of strategy and risks.

“We added an intermediate function between manager and senior auditor, which is called “audit practice leader.” We took by department, so for finance, HR, sales, operation, and so on someone that is specialized in this domain. [The audit practice leaders] have periodic contacts with the management of their assigned department to be closer to the field and to their reality. It enables internal audit to be aligned to the business, to the strategy, and to validate with more comfort our risk assessment.”

—CAE, Services, Belgium

On the other hand, these significant positive correlations highlight the importance of the tone at the top concerning the internal audit function. When senior management and/or the audit committee gives the internal audit function credit by involving it in strategically important issues or corporate governance issues, it is more likely that the internal audit function will better understand the key strategic risks and their scope.

“I think that the tone at the top is key for internal audit. How does your executive management feel about the audit group? Do they view them as a necessary evil? Or do they view them as an opportunity to enhance their organization? [...]. It’s an easy environment to work on as an internal auditor because you know that the people at the top of the organization want you to do a good job and want to help you to do a good job.”

—CAE, Health Care, Belgium

In conclusion, some types of strategic profiles seem to influence the type of activities conducted by the internal audit function. Organizations following strategies that cause uncertainty such as entering a new business sector or causing important changes in the business processes of the company, such as a merger or an acquisition, will tend to expect a more consulting role from the internal audit function. This observation highlights the internal audit potential to be a major source of added value for organizations when they face strategic changes that impact their structure. Besides, the level of credibility of the internal audit function as well as from the auditees apart from the management and/or board is crucial for the internal audit function to stay aligned to the strategy of the organization.

Practical Actions:

- ✓ Be aware that strategies that involve important changes and uncertainty (mergers, acquisitions, unrelated diversification, and vertical integration) influence the level of outsourcing of internal audit activities.
- ✓ The use of external staff during audit engagements involves a higher degree of integration between the internal and external staff.
- ✓ Develop relationships with the auditees in order to understand the execution of the strategic plan.
- ✓ Promote the added value of the internal audit function to have the support of management in conducting engagements and to be involved in the strategic discussions.

Conclusion

The business environment is changing quickly, and companies are increasingly going digital. Understanding how the organizational context could influence the internal audit function is important for internal auditors in order to develop an internal audit plan that is relevant for the key goals of organizations.

Specifically, this project focuses on one major organizational factor: the strategy. Interviews with CAEs, CEOs, and other members of management committees from diverse industries were conducted to more fully understand how the organizational strategy could have an impact on internal audit activities. Afterwards, internal auditors responded to a survey submitted through the IIA network in North America to investigate these impacts globally. The main results that emerge from the analysis of the interviews and the surveys follow.

First, the responses from the interviews and the survey confirm that the business environment is increasingly moving toward digital. To stay aligned to the environment and its changes, the internal audit plan has to be dynamic. Organizations are increasingly embracing a digital business model and orienting their strategy in this direction. Consequently, internal auditors and senior management expect the IT risks to be even more important in the future. This trend impacts the internal audit function at two levels. On the one hand, organizations expect internal auditors to adopt a more consulting mindset in order to advise the company on how to deal with these changes. Consulting mindset refers to consulting activities that internal auditors could perform for the company but also to a behavior when the internal audit department issues recommendations.

The interviewees believe internal auditors are encouraged to advise auditees in the action plan following internal audit recommendations. On the other hand, the digital strategies have an impact on the required skills expected in the internal audit department. There is a shift in the preferred skills from financial to IT. In particular, the use of big data is seen to add value to the audit engagement and increase the scope and quality of the reports. Nevertheless, this skill still appears to be limited in internal audit departments. Consequently, there is an opportunity to develop the quality of the work of internal auditors in the current business environment.

Second, this project reveals that different strategic profiles have an impact on the activities performed by internal audit departments. This is especially the case with mergers, acquisitions, vertical integration, and unrelated diversification. It means that these types of strategies involve important changes in the business processes and that companies could face some uncertainty when they implement such strategies. As a result, senior management asks the internal audit function to perform more consulting activities. Besides the direct impact of the organizational strategy on the internal audit function, the analysis reveals that this could in turn have an indirect impact on strategy. Indeed, some recommendations concerning certain risks could lead senior management to modify and improve the strategy.

There are some limitations to this research that could be the basis for future research projects. The interviews were conducted in two countries—the United States and Belgium—and the surveys were conducted in North America. Future research could focus on interviewing people or distributing the surveys in other countries. The results involve opinions of CAEs and senior management. Interviewing members of audit committees and auditees could be an opportunity to present other points of view on these topics.

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