Beyond Quality: The Four-Part Approach for Audit Efficiency and Effectiveness

Written by Ernest Anunciacion

The Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*, colloquially known as the “Standards,” is a set of core principles and a “framework for performing and promoting internal auditing.” As they function as guide rails for the practice, not mandated tactics, the Standards offer best practices on how an auditor should conduct his or her work.

In many professions, the concept of quality is vague and frequently differs from person to person or team to team. However, the IIA and the Standards are articulate about what constitutes quality for the internal audit function, going so far as to establish a *Quality Assessment Manual*.

Accordingly, any discussion of quality in internal audit—and, subsequently, effectiveness and efficiency—must first begin with a clear understanding of the IIA’s existing interpretation of quality, as well as an understanding of the actions that should be taken to promote it.

This paper will detail how internal audit leaders can improve the efficiency and effectiveness of their teams, despite time and resource constraints, using existing guidelines for improving audit quality.

**The IIA and quality assurance**

As *the introduction to the Standards* explains, the practice of internal auditing is conducted in diverse legal and cultural environments, spanning organizations "that vary in purpose, size, complexity, and structure." While these differences influence the internal audit practice in each environment, conformance with the Standards helps assure the fundamental responsibilities of the role are being met.

Chief audit executives need assurance that their internal audit activity is performing to expectations and that staff members are performing quality work. I have found that the only way to meet these expectations is through a comprehensive quality assurance program, which must include ongoing and periodic internal assessments. The Standards agree: section 1300 states that the chief audit executive “must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.”

Additionally, these assessments, according to the Quality Assessment Manual, should not be an afterthought nor an element to be tacked on at the end of the year. Rather, they should be an ideology of constant, iterative growth:

"Quality should be built into, not onto, the way the activity conducts its business—through its internal audit methodology, policies and procedures, and human resource practices. Building quality into a process is essential to validate and continuously improve the internal audit activity, demonstrating value as defined by stakeholders."

With this core tenet in mind—that quality must be approached throughout the process, not just acknowledged at the end—the IIA suggests the following *four-part approach* to monitoring and improving audit quality.
Going further than quality

The four steps above give a high-level perspective on the creation of a quality assurance and improvement program for the internal audit function of an organization. With such a set of standards, quality is effectively a baseline expectation. As a former practitioner for some of the largest companies in the country, I have learned that good work is not enough. Organizations must go further than quality. Improving efficiency and effectiveness throughout the methodology can streamline processes and save money, time, and resources.

What, precisely, do “efficiency” and “effectiveness” mean in the context of quality? Loosely defined, effectiveness is the results that come from work, while efficiency is the time and resources that are required to achieve those results. In essence, effectiveness is about doing the correct things, while efficiency is about doing things correctly.

High-quality work can be done in the absence of effectiveness and efficiency, but it is ultimately not as beneficial to the company if it fails to consider the resources used or if the right work is being conducted.

I recall a time when my team was scheduled to conduct a routine travel and expense audit. The testing procedures were fairly standard—however, the company had recently switched expense systems, and we failed to update the appropriate procedures. All of my staff were allocated to other projects, and the only available team member was a new hire who came from the company’s operations with no auditing background. Given the urgency to complete the engagement before the next audit committee meeting, I ended up postponing one of my audits to assist the new associate.

While we were able to complete the audit on time and identify transactions inconsistent with our policies, what should have been a 40-hour engagement required more time for me to coach the new associate. I failed to forecast the schedule appropriately to ensure that the best resources possible were available at that time. Also, I failed to ensure that the testing steps were updated accurately to reflect the new travel and expense system.

In this example, efficiency was sacrificed for quality and effectiveness. While some circumstances are unavoidable, proper planning can afford internal auditors the ability to improve and optimize their work.

To evaluate and find opportunities to improve your team’s effectiveness and efficiency, use the aforementioned four-part approach—plan, do, check, and act—and take your internal audit processes further than quality.

Step 1: Plan for organizational growth

While the concept of quality is uniform for internal auditors of different varieties and capacities, effectiveness and efficiency can vary from organization to organization. Accordingly, clear definitions for these terms—the expectations for your team—must be established and adopted to plan for growth.

Use these questions as guidance when defining exactly what effectiveness and efficiency mean for you and your team:

- Are we equipped with the up-to-date tools needed to conduct the best work possible?
- Do we have the right resources and skill sets required to deliver our audit plan?
- Are we contributing to organizational improvement? If so, can others see this?
• Have we obtained any validation of our team's quality, such as notification from managers or executives?
• Is feedback effectively distributed to team members, so they know what areas to improve?
• What quantifiable metrics can we associate with these definitions?

While you and your team's definitions of effectiveness and efficiency are crucial, it is also important to gain the approval of key stakeholders involved in internal audit. A major reason that process improvement initiatives fail, according to one Harvard Business Review article, is that the people whose work will be directly impacted are often left out of the process.

Accordingly, feedback from stakeholders at the helm of the financial success of your company should also be incorporated. Here are a few stakeholders who should weigh in on your definitions of effectiveness and efficiency:

• **Internal stakeholders**: Board of directors, audit committee, executives, senior management, and department leads

• **External stakeholders**: Regulators, standard-setters, vendors, customers, and external audit teams

**Step 2: Do the work needed to set expectations**

The second step of this process continues to articulate the definitions of effectiveness and efficiency, and sets expectations for your team. By this stage, you should have an internal definition of effectiveness and efficiency, and you have tempered that definition in the context of what key internal and external stakeholders need. To better set your organization up for success, make these definitions more actionable and specific through the assignment of qualitative and quantitative metrics.

As described in a Forbes article, Forrester reports 74 percent of firms say they want to be "data-driven," but only 29 percent are actually successful at connecting analytics to action. Actionable insights appear to be the missing link for companies that want to drive business outcomes from their data.

Make these definitions more actionable and specific for your team by assigning qualitative and quantitative metrics for each. To collect qualitative and quantitative metrics, try the following tactics:

• Look back at past performance data to determine quantitative metrics:
  - How many audits were scheduled?
  - How many were completed?
  - How was staff utilized?
  - What were the budgeted hours as compared to the actual hours?

• Go on a listening tour of departments impacted by your work to determine qualitative metrics:
  - What do clients think of your team's performance?
  - What do other internal stakeholders think of your team's performance?
  - Do they consider you and your team leaders in their role or order-takers?
  - Would they want to engage in future projects with your team?

One of the things I implemented in the past was a balanced scorecard—a view of metrics and key performance indicators detailing areas of strength and areas for improvement. As part of the audit committee presentations, we presented to the audit committee both the quantitative and qualitative metrics that comprised our key performance indicators. In addition to items such as budget, time, and expenses, we also included metrics that highlighted staff utilization, CPE tracking for active certifications, and net promoter scores from our internal stakeholders. My goal with the balanced scorecard was to be open and honest about our team's performance and back those statements with data-driven results.

With these actionable definitions in hand, the expectations for your team should be crystal clear. It is ultimately up to chief audit executives to hold their teams accountable for efficient and effective—along with quality—work.

**Step 3: Check progress against set expectations**

To check the quality, effectiveness, and efficiency of your team's work, internal audit leaders should look at individual performance on an ongoing basis—not just an annual one. After all, it is easier and less problematic for leaders to reevaluate individual performance in small increments before it becomes a major issue.

In organizations of all sizes, a traditional once-per-year approach to employee reviews is fading away in favor of more ongoing ones. As a Washington Post article describes, today's employees have come to expect instant feedback in many other areas of their
lives, and performance reviews should be the same. Besides, the article states, one report found that two-thirds of employees who receive the highest scores in a typical performance management system are not actually the organization's highest performers.

Chief audit executives should encourage the completion of self-appraisals. A Harvard Business Review article explains that an effective self-appraisal should focus on what you have accomplished and talk about weaknesses carefully, using language with an emphasis on growth and improvement, rather than admonishment. Highlight your team’s blind spots that they might not be aware exists.

In short, employees want more frequent and iterative assessments of their work, and internal audit leaders need to step up to deliver this and ensure quality, effectiveness, and efficiency at all stages.

**Step 4: Act upon what you have learned**

By this step, internal audit leaders have an array of tools at their disposal, including:

- Actionable definitions of effectiveness and efficiency for their teams
- Qualitative and quantitative metrics to bolster these definitions
- Information gathered from self- and manager-guided evaluations
- An understanding of how team members have performed along these guidelines

With this information in hand, many opportunities for growth are apparent—simply compare where you want your team members to be against where they are right now. By implementing these fact-based changes into your internal audit processes, leaders set the stage for cyclical organizational and personal improvement.

According to a survey, this type of continuous improvement yields a positive ROI for organizations, helping increase revenue, along with saving time and money—an average annual impact of $6,000. Additionally, these improvements are designed to compound with each cycle.

Just as the approach to monitoring and improving audit quality is ongoing and cyclical—there are always improvements yet to be made—this approach to improving effectiveness and efficiency is fluid as well.

By weaving this four-part process into the fabric of your internal audit methodology, leaders can improve effectiveness and efficiency in their organizations.

**In closing**

Quality, effectiveness, and efficiency intermingle and collaborate to make a high-performing internal audit function. Years of internal audit experience have taught me that, when improving those three aspects, an often-overlooked tool is technology.

The IIA recognizes the importance of technology’s role, as reflected in the Standards. Section 1220 states: “In exercising due professional care, internal auditors must consider use of technology-based audit and other data analysis techniques.”

That said, according to the 2017 AuditNet Survey, the majority of internal audit functions only use basic technologies to support their activities. Improving the tools used in internal audit can ultimately improve quality, build more efficient teams, and prove the worth and effectiveness of the function throughout the organization.

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**About the author**

Ernest Anunciacion, Senior Product Marketing Manager, brings over 15 years of experience in internal audit, risk management, and business advisory consulting to Workiva. Ernest is a Certified Internal Auditor and Six Sigma Black Belt. He holds an undergraduate degree and an executive MBA from the Carlson School of Business at the University of Minnesota.