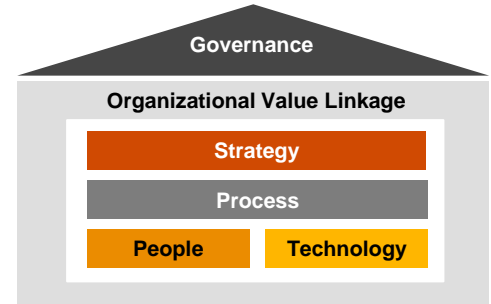




# A chance to reframe Internal Audit: the new Global Internal Audit Standards\*

July 2024  
Reframe IA Series – Issue 6

In this series we will explore the various building blocks from PwC's Internal Audit (IA) framework, as outlined in [Issue 1](#). This is an opportunity to assess IA's performance and shape IA's strategic and transformation roadmap, while demonstrating alignment with the Institute of Internal Auditors (the IIA) [Global Internal Audit Standards](#)\* (the Standards).



## Performance measurement

### Global Internal Audit Standards: Standard 12.2 Performance Measurement

#### What it is

The updated Standards bring performance measurement to the surface as a discrete requirement, where previously the concept was embedded in the Quality Assurance and Improvement Plan. Performance measurement is important for any business function, including IA, defining qualitative and quantitative measures that are aligned with organization and stakeholder goals. Tracking progress against these is important for evaluating success, identifying improvement, and demonstrating IA's value.

Performance measures that reflect the value of IA not only make good sense, but are a necessity in today's competitive environment with heightened pressure on achieving faster, better outcomes, and demonstrating return on investments (ROI).

#### *My IA function has reported metrics for years, how is this new?*

While the notion of IA metrics aren't new, many IA functions are rethinking their performance objectives and Strategic Plan as part of the new Standards. Now is the time to update metrics to align with the strategic plan and also consider how you measure IA's value and impact.

#### *My Audit Committee is used to current metrics and ways of reporting; how do I use the new Standards to evolve this?*

Lay the groundwork for change by highlighting that IA needs to keep pace with overall organizational change. Gather input from the Board and senior management that considers the balance of metrics across different outcomes, including:

- Stakeholder expectations
- Risk coverage
- Extent of audit conclusions
- Human resource and training needs
- Financial and operational efficiency

#### The opportunity to advance IA

##### *Unlocking benefits beyond the Standards*

Transform your performance objectives, measurements and reporting, considering the following:

- ❑ **Simplify and streamline** — Focus on metrics that truly reflect the value IA brings to the organization. For instance, Audit Satisfaction Score to Stakeholder Net Promoter Score.
- ❑ **Audit in 3D** — Confirm that metrics, and the way they're presented, "tell a story" and are not one-dimensional (e.g., number of audits, issues found/closed, headcount)
- ❑ **Continuously evolve**— Identify the baseline and continually evaluate changes needed to keep pace with the business ecosystem. If performance stalls, ask why and determine what needs to change to achieve objectives
- ❑ **Investment lens** — Consider what the metrics say about investment in IA, and whether headcount, capabilities, and technology are sufficient to achieve its objectives
- ❑ **Coverage and alignment** — Include metrics that highlight risk coverage and synergy across the three lines
- ❑ **ROI** — Take credit for qualitative and quantitative factors that showcase the ROI from investment in IA and its success cases
- ❑ **Technology** — Leverage technology to gather data, calculate and visualize metrics in meaningful ways

\*Global Internal Audit Standards ("Standards") is a registered trademark of The Institute of Internal Auditors, Inc. ("IIA").



## Selecting measures with balance and impact in mind

Picking the right metrics is important. Each organization is unique and metrics for one IA function may not be effective for another. This is the same for different stakeholders (e.g. Senior Management versus the Audit Committee). As you assemble or reevaluate your metrics, choose from a spectrum of measures that support operational excellence and speak to independent stakeholder groups to best convey the value of your function.

### Strategic / value-based measures

#### Strategic and risk-aligned metrics

Highlights greater risk coverage and development IA capabilities, including auditing using different techniques over time. Measures that drive greater impact and wider value across the organization.

*Examples: % coverage over the organization's key risks and controls; number of audits that directly relate to a key business imperative; themes and trending of audit observations and cycle-time comparison; traditional audits versus audits using advanced technologies*

#### Value perception and sharing metrics

Measures how well IA focuses on, and finds, the things that matter to the organization and demonstrate value and achievement of goals.

*Examples: impact of resulting remediation/action plans, adoption of innovative audit techniques; leading practice / industry hot-topics knowledge sharing; stakeholder satisfaction scores; practice tools/data shared with the business*

### Common operational measures

#### Timeliness metrics

Focuses on the "what" was done, but not "how" or "why." Can help measure efficiency over time but, alone, won't address quality and value dimensions. For example, accelerating IA fieldwork and reporting may impede IA's ability to take sufficient time to evolve their approach (e.g., moving to a data-led approach or conducting follow-up investigation and root-cause analysis on findings), which could add more value.

*Examples: average days from fieldwork close to final reporting; % variance between budgeted and actual audit time*

#### Volume metrics

Provides a basic measure of output quantity but does not address quality and value dimensions. These are transactional in nature and can be used to measure capacity and efficiency over time, or contribute to a 'story' of how IA has optimized or standardized, but it should be balanced with qualitative measurements

*Examples: count of audits completed, audits per headcount, or percentage of audits leveraging data*

Consider preparing separate scorecards with metrics used for the day-to-day operation of IA versus those used to convey meaningful value to your stakeholders.



## Where to start

Whether you're starting from scratch or reassessing IA's metrics, avoid adopting a list of common metrics that may not align with your IA mandate, IA and company strategies and objectives, and stakeholder expectations. Consider the following steps and tips:

1

### **Identify objectives and gather feedback:**

Review IA's mandate, strategic plan and organizational objectives to identify objectives that matter. Understand perspectives from key stakeholders and the metrics they believe are important.

▶ Don't miss the opportunity to elevate the conversation about your IA function, the value it brings to the organization and where investment may be needed to improve. Evaluate your current performance measures and consider reporting different metrics by stakeholder.

2

### **Review and define new metrics:**

Evaluate the relevance, effectiveness and alignment of metrics with IA's objectives and feedback received. Determine if any metrics need to be updated, removed or added.

▶ As you assemble your library of metrics, differentiate between those that demonstrate quality and value from those focused on IA operations, and look for any gaps. Metrics should be specific, measurable, achievable, relevant and time-bound (SMART), with a mix of both 'leading and lagging' indicators.

3

### **Establish measurement methods and set targets:**

Determine how metrics will be measured and collected, and on what frequency. Establish targets and benchmarks for each metric. Consider the tech tip below.

▶ Leverage industry standards, historical data, peer networks and benchmarks when setting challenging, yet attainable, targets.

4

### **Communicate, implement and monitor metrics:**

Track performance against targets. Analyze the data to determine the results, highlighting trends, patterns, and areas of improvement or concern.

▶ How you present and report the metrics and results is important. Consider each stakeholder lens, what they're looking for, and the best format to provide meaningful commentary and insights on IA performance. The format and type of metric may vary depending on each stakeholder objective.

5

**Review and adjust:** Conduct periodic reviews of metrics to evaluate their effectiveness as the organization changes, including whether they're providing the desired insights and driving the right behaviors. Adjust metrics as needed to maintain their relevance over time.

▶ To demonstrate IA's commitment to continuous improvement, seek feedback on metrics and reporting. Adjust as needed to continue to meet stakeholder expectations and align with business objectives and industry leading practices.



## Tech Tip

Many IA functions use technology to enhance operations, including audit management system, GRC/ERP platforms, point solution or web/desktop applications (e.g., documents, spreadsheets). These should be leveraged to capture the data to measure, calculate and visualize performance against IA's goals. The more the metrics are centrally maintained and automated, the better. Consider the best format to present the results and narrative, and whether different approaches and formats are needed for different stakeholders.

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## How it comes together

Well defined performance measures and consistent monitoring helps IA strive for continuous improvement, keep pace with organizational goals, and ultimately fulfil its mandate. Getting this right requires IA to consider a range of different interdependencies and stakeholder views across the organization, and elements of how it operates consistently as one IA function. These are shown in the PwC IA framework below.

## Questions and interdependencies to consider

Given that performance metrics can be used to measure achievement across all components and capabilities of IA, interdependencies can be applied across all areas of the 'IA house.' A few examples are highlighted below.



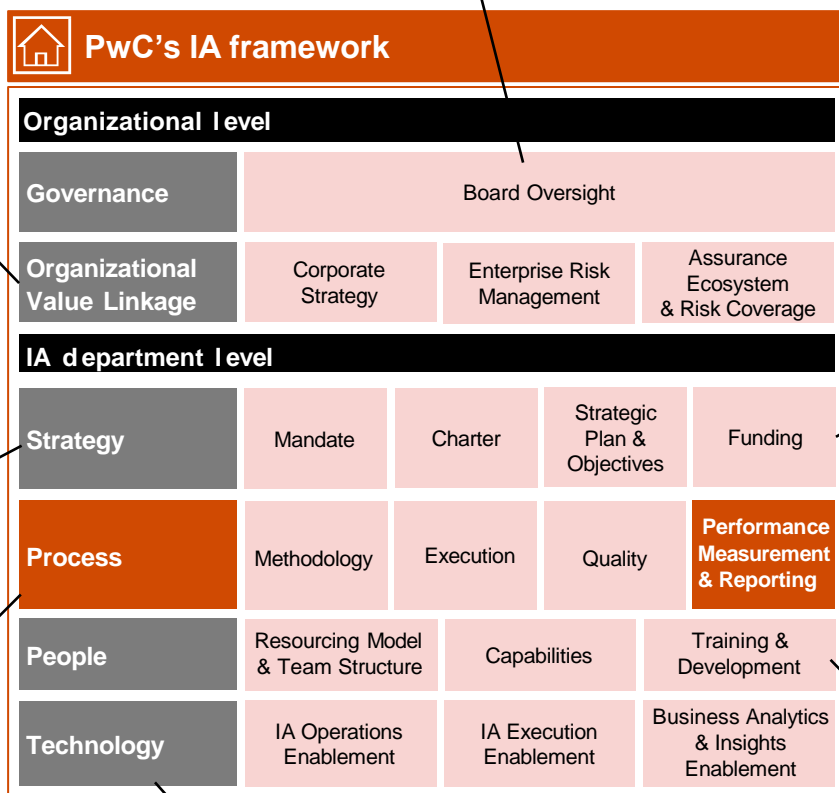
Do the metrics clearly paint the picture of an IA function that has aligned its focus to the areas of highest value for the organization?



Have key stakeholders, including the Board and senior leadership, been consulted when creating performance measures? Has a reporting format and frequency been defined?



Are the performance measures linked to — and reflective of — IA's mandate, charter, strategic plan and objectives?



Do the metrics support the validation of appropriate department funding and/or deployment of resources based on factors such as the risk coverage and balance of value creation and value protection?



Are metrics in place to evaluate the competency and effectiveness of training and development?  
Are metrics reflective and tied to performance measurement and incentives?



Do existing processes enable success in achieving defined performance goals?



Has IA appropriately leveraged technology to capture available data, streamline the calculation and visually present selected performance measures?  
Do selected performance measures include those that highlight expanded use of data and technology, including IA's use of emerging technologies?

Article topic

Direct interdependency

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## The stakeholder perspective

As key stakeholders for IA, you play an important role in setting and evaluating IA's performance and helping shape the priorities of IA — and the value you receive. When engaging with IA, consider the following:



### Board/Audit Committee & Senior Management

Has IA **sought your input on performance measures that matter to you**, given your focus and expectations of IA?

Have IA **performance measures remained consistent (unchanged)** in recent years?

Do the performance measures reflect an **IA function that's continuously improving** or one that hasn't evolved?

Do the performance measures have the **right balance of qualitative and quantitative** factors?

Do the performance measures “tell a story” of IA's performance that's **clear and easy to understand**?

How satisfied are you with the quality and reliability of IA's reporting of performance measures?

Are IA's **action plans to achieve their desired performance** clearly presented and tracked for resolution?

Does IA consider the **feedback and satisfaction level of first (business functions) and second (risk, compliance) lines** as part of the IA function's quantitative and qualitative performance measures?





Throughout the implementation period, we will release a series of thought leadership with practical tips, examples and PwC's point of view on effectively and efficiently implementing the Global Internal Audit Standards while embedding transformation elements into IA's strategic roadmap. A high level description of topics to come are outlined on the right.

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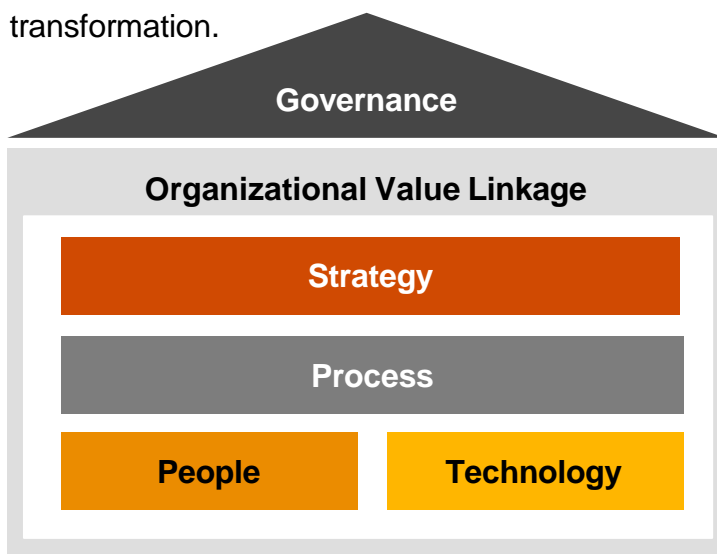


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## Reframe IA Series

Practical ways to help implement the IIA's new Global Internal Audit Standards and IA transformation.



1

**Reframing Your Fit for Purpose IA Function**  
*Issue 1 (January 2024)*

2

**Mandate**  
*Issue 2 (February 2024)*

3

**Strategic Plan**  
*Issue 3 (April 2024)*

4

**Board Engagement**  
*Issue 4 (May 2024)*

5

**Assurance Ecosystem**  
*Issue 5 (June 2024)*

6

**Performance Measures**

7

**Risk Assessment and Coverage**

8

**Audit Spectrum**

9

**Reporting and Communication**

10

**Capabilities**



## Key Resources

- Resources from the IIA:
  - [Global Internal Audit Standards](#)™
- [PwC Internal Audit](#) - updates on the latest IA topics and trends
- [PwC Global Internal Audit Study 2023](#)
- [Governance Insights Center website](#)

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