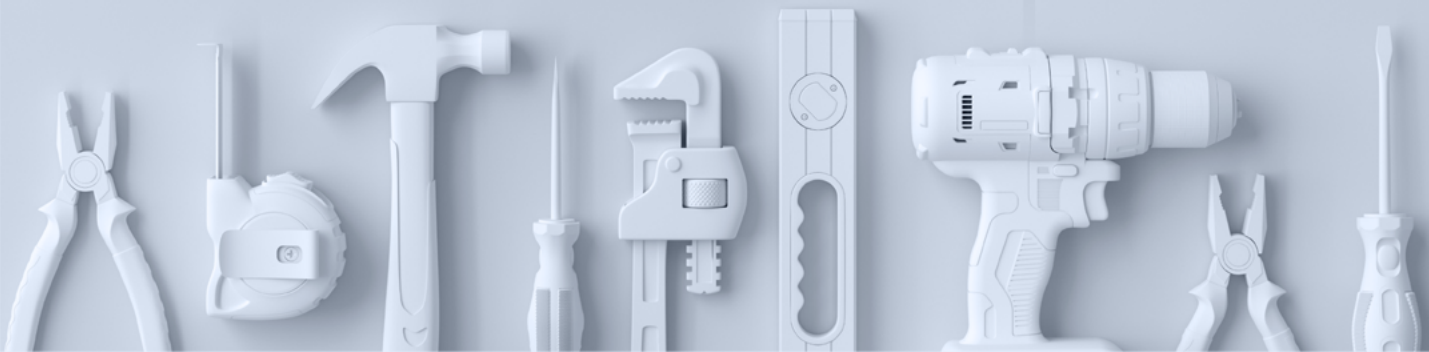


Audit Committee Toolkit

Maximizing Value
From Internal Audit



Audit Committee Toolkit: Maximizing Value From Internal Audit



Audit committee members have oversight of internal audit, but time together is often limited to just four meetings each year. During those meetings, the audit committee needs to digest a great deal of information related to trends and risk exposures that are occurring, the organization's performance in managing risk, and internal audit strategies to improve their focus on risk, as well as to review the structure and composition of the department's resources.

Consider the following guidance when designing risk-based audit committee meetings, including a checklist of questions for audit committee members to ask the CAE to set expectations, drive meaningful communication, and dig deeper into organizational risks.

Four Ways Audit Committees Can Maximize Value From Internal Audit

As audit committees review past interactions with the CAE, specific areas for improvement will surface. ***Some of the most meaningful actions you can take with the CAE are those that direct the conversation toward a forward-looking perspective on risk.*** Here are four areas that add significant value:

1. Reframe the Interaction Around Risks

One of the main conversation points with the CAE should be on the organization's performance in managing risks — although many CAEs spend the bulk of the meeting focusing on charts

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and graphs of the number of issues found by audit, usually grouped by priority. **Have the CAE reframe “audit findings” as “risk observations” with categorizations tied to specific risks significant to the organization.** In this way, the presentation will highlight which risks management is not appropriately managing. For example, management may not be identifying all pertinent risks, assessing and prioritizing risks properly, considering all possible responses to risks, or ensuring the chosen risk responses are implemented.

Now that the conversation focuses on the management of significant risks, the audit committee can direct the conversation on how observations and opinions of internal audit fit into the overall risk management environment. The CAE should [work closely with the other risk-](#)

[related functions](#) like Enterprise Risk Management (ERM) and compliance so they can present a more collaborative and complete picture of risk management. A part of this broader view, trending risk information can also be illuminating. Putting recent observations from internal audit and others into context of the past six to twelve months (or more) helps understand the direction of the company.

2. Address Emerging Risks with Agility

So much of the traditional internal audit function is a review of past events based on an assessment of past risks. **This might have been acceptable in stable environments, but not today. The audit committee should expect internal audit to focus more on [emerging risks](#).**

Mitigation Plans				
<div>Search... Clear Filters</div>				
Name	Risk Category	Mitigation Plan	Status	Owner
Data leakage due to insider attack	Information Technology	Inadequate or incomplete inventories of assets containing sensitive data Inadequate methods are in place to inventory sensitive inventory breaches regulator	Inactive	Andrew Johnson
Information is exchanged inappropriately with a third party	Information Technology	Enhance insufficient training to employees surround interactive result, this likelihood exchange, insecure	Information is exchanged inappropriately with a third party	Andrew Johnson
Data is disclosed due to improper classification	Information Technology	Lack of Data Classification Methodology There is no defined data classification methodology to appropriately classify data's criticality rating	Pending Remediation	Andrew King
Failure to designate leadership (e.g., an individual or individuals) for oversight and strategic direction for IT operations	Strategic	Develop executive sponsorship on key IT Risks	Pending Remediation	Angela Wolf

Leverage real-time information about the organization’s performance in managing risks in a centralized dashboard. Quickly view remediation status and track progress to gain greater confidence in the achievement of strategic objectives, as well as improved compliance with legal, regulatory, and reporting requirements.

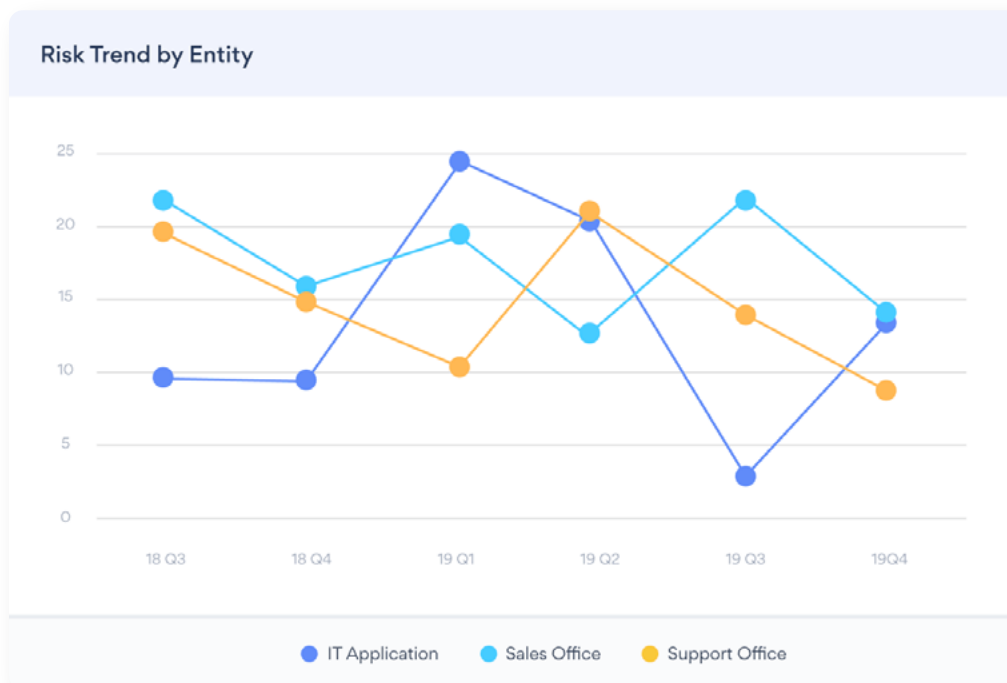
For a successful audit function to address emerging risks, several key changes need to occur. First, the audit committee should have an open discussion with the CAE about their expectations to focus on emerging risks. Second, the audit committee should freely discuss their views on potential risks on the horizon. As audit committee members, you often have an outside perspective with exposure to other organizations, and are in a great position to share what you are seeing elsewhere and hearing from other leaders. Third, have the CAE explain their strategy for identifying, defining, and addressing emerging risks in the next quarter.

By focusing on the most critical risks, and rearranging audit effort quickly as risks change and emerge, the CAE moves the internal

audit function into an agile approach — one that addresses risk based on priority to the organization, not entity coverage or other backward-looking approaches. Since this change could be a major shift in the audit approach, the audit committee and CAE should discuss it in detail, as alterations to internal audit processes, training, and tools may be needed.

3. Open Communication With Real-Time Reporting

A typical venue for communication between the audit committee and internal audit is a scheduled presentation at a quarterly audit committee meeting. ***Consider increasing the availability of information coming from the internal audit team.*** Are you comfortable relying solely on a polished slide presentation with no time for questions, or



Gain visibility into risk trends to drive key decisions and inform audit, risk, and compliance programs. Leverage risk management technology to perform trend analysis through real-time visualizations that measure the effectiveness of your efforts, and proactively manage risk by monitoring key risk indicators.

would you prefer an easily understandable pre-read document with most audit committee time reserved for discussion? Are you comfortable with a quarterly presentation, or would you prefer access to real-time data from internal audit?

When internal audit employs cloud-based [audit management software](#), they can access real-time dashboards that summarize audit results, issues, and mitigation efforts, and risk trends for the audit committee — who can expect more timely and relevant updates. It will be important to set expectations as to whether or not an internal audit's interpretation of this data would be required more frequently than quarterly. On many areas, data can provide valuable information, but it may not be enough to completely replace the CAE's judgment and opinion.

4. Ensure Adequate Resources to Address Risks

The audit committee is responsible for oversight of the internal audit function. Most CAEs will provide summary statistics regarding the resources, performance, and efficiency of internal audit (e.g., number of staff by role, training hours provided to the team, count of certifications held by the auditors). However, these statistics can

have little value if not put within the context of the CAE's strategy for managing internal audit.

A more meaningful conversation with the CAE would include a holistic view of resources and processes, specifically including people and technology. For people resources, set the expectation that the CAE will discuss upcoming training programs that pertain to emerging risks and areas of concern for the organization. Regarding technology, have the CAE explain the department's use of risk assessment tools, audit management software, data analytics, and other automation tools within the context of current and future audit plans.

Throughout these discussions, have the CAE explain their overarching strategies as to how changes in people, processes, and technology will ensure internal audit can perform as expected by the audit committee. Understanding these strategies and their resource needs will help with setting the department's budget and challenging potential stagnation within the department.

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Audit Committee Toolkit: Questions to Consider Asking the CAE

When setting expectations with the CAE regarding the type of information discussed in the update meetings, consider using the questions in the following checklist as a guide to ensure everyone makes the best use of the time together.



Risk Trending

- ☐ What is the CAE's opinion on the organization's management of significant risks?
- ☐ What are the incidents of inadequate risk management uncovered by internal audit in the last quarter?
- ☐ Is management reacting appropriately to the issues and prioritizing corrective efforts?
- ☐ Is internal audit appropriately collaborating with ERM and other risk functions?
- ☐ Do risk trends point to a larger issue within the organization, a weak spot in the management of risk, or the need for additional oversight and training in a specific area?
- ☐ Have key risk indicators been mapped to auditable activities to help measure the performance of key metrics or identify areas of focus during the audits?

Emerging Risk

- ☐ Has the CAE identified and assessed emerging risks that could be significant for the organization? Have these been communicated to management?
- ☐ Are there other emerging risks that should be discussed amongst the audit committee and risk-related function leaders?
- ☐ Does the audit plan address emerging risks sufficiently?
- ☐ Does the internal audit team possess an appropriate level of business acumen, agility, and skill to react to emerging risks?
- ☐ Has the CAE obtained or arranged for training on emerging risk, agile auditing and assimilated an agile mindset into the team?

Communication

- ☐ Does the internal audit team have the necessary resources to provide sufficiently frequent updates to the audit committee?
- ☐ Does internal audit have a way to quickly communicate to the audit committee reporting on risk trends, issues, correction progress, and other relevant information?
- ☐ Does the audit committee chair and the CAE have a fluid mechanism for ad hoc updates?
- ☐ Has the CAE collaborated with the heads of other risk-related functions such as ERM, SOX, and compliance teams?

Department Update

- ☐ Does the CAE have established strategies addressing the people, processes, and technology needed for internal audit to accomplish its objectives?
- ☐ Is the audit department staffed appropriately relative to the size and complexity of the organization?
- ☐ Do the internal audit team members have the requisite level of training, education, relevant skill sets, and budget to successfully achieve their objectives?
- ☐ Does the CAE have a training plan in place for the department in relation to relevant risk topics, current trends, and departmental weaknesses?
- ☐ Does the audit department share its perspective on risk management with the rest of the organization?
- ☐ Is there an opportunity to combine training with other risk-related functions for mutual benefit?

If you are not engaging with internal audit in this way, it is time to reset expectations with the CAE, reorient the audit committee meetings to address your needs, and then support the internal audit department as they continue to mature in providing dynamic risk insights.

The Value of Risk-Based Audit Committee Meetings

Following the suggestions outlined in this article and checklist will lead to more effective audit committee meetings that add value to the organization by gathering insights into the risk the organization faces and how well they are managed. ***The audit committee's time with the CAE focusing on risks to the organization comes from several angles: current risk exposure, future risk events, and the risk of audit missing something.*** If you are not engaging with internal audit in this way, it is time to reset expectations with the CAE, reorient the audit committee meetings to address your needs, and then support the internal audit department as they continue to mature in providing dynamic risk insights.

About the Authors



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AuditBoard transforms how audit, risk, and compliance professionals manage today's dynamic risk landscape with a modern, connected platform that engages the front lines, surfaces the risks that matter, and drives better strategic decision-making.