

Ambition 2018

We are very grateful for the feedback received from the participants as we are aware that completing the benchmark takes time. Several IAFs used the model as a strategy and team building activity. By examining the current state of the IAF and discussing scoping ambitions, teams experienced a more shared vision of the future of their IAF.

This publication gives an impression of 36 IAFs in the Netherlands, some operating internationally. Given this relatively small number, it is too early to conclude that the results are statistically representative for the internal audit profession in the Netherlands. However, during the discussion of the first results in the CAE Forum, this initial insight was acknowledged.

These insights and key takeaways support a next step that can be taken in a broad professional dialogue amongst auditors. And getting up to standard with the IPPF by sharing experiences and best practices.

We invite you to participate in the round table on 6 October 2017 and the Professional Practices Day on 9 November 2017, which will focus on the further development of the IA AM. For feedback, questions and to receive the model, visit www.iaa.nl or send an email to ambition@iaa.nl

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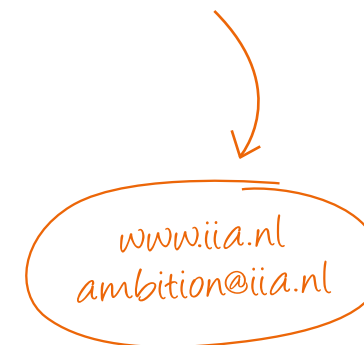
IA AM:
Be the game changer



Internal Audit Ambition Model

State of Internal Audit in the Netherlands
Internal Audit Ambition Model benchmark 2017
IIA Conference 15 June 2017

Feedback
Questions
Receive the model



Introduction

In a globally connected world, there is a growing need for Internal Audit Functions (IAFs) that deliver added value to their organisations. Stakeholders expect more from their IAFs. They want IAFs to provide assurance that controls are working properly, to give advice on changes and operational issues and to anticipate and provide insights on risks to the organisation. This recognition of the added value IAFs can provide is also reflected in the revised Dutch Corporate Governance Code, which covers the IAF with respect to the theme of long-term value creation.

The Internal Audit Ambition Model (IA AM) was introduced in June 2016 as a self assessment tool, which has developed into a communication and benchmarking instrument for increasing the recognition of the internal audit profession. Several Chief Audit Executives (CAEs) have already discussed the output with the board and Audit Committees.

The model can be applied from two angles:

1. The IA AM supports CAEs in formulating – in consultation with the Management

Board – the tasks and desired level of ambition for the IAF. The model also offers guidance to regularly evaluate the performance of the IAF and define a road map to achieve the stated ambition.

2. The IA AM is an information source for the Audit Committee of the Supervisory Board. It is a useful aid for promoting the independence and performance of IAFs and for reinforcing the desired ambition level of the IAF.

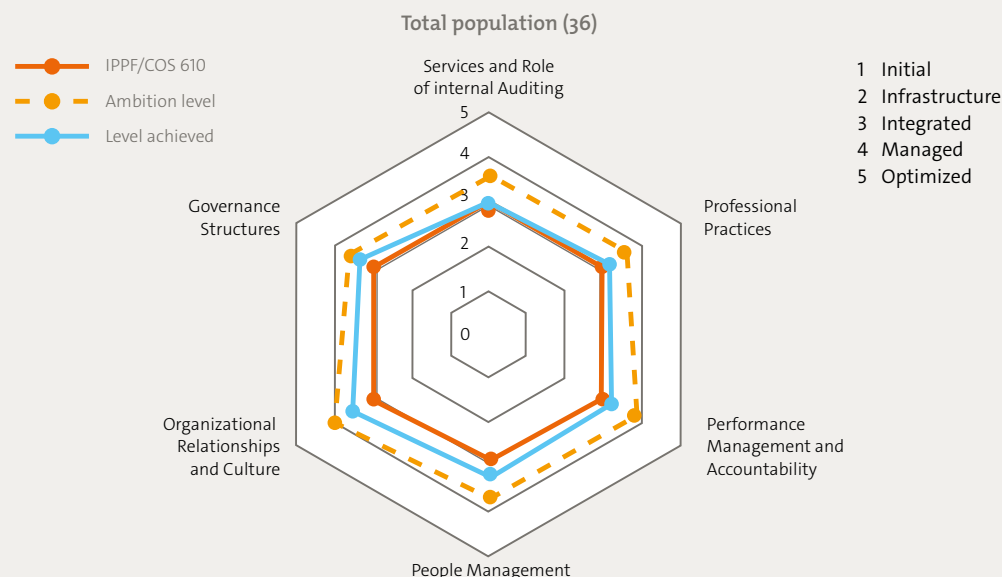
This publication is made on behalf of the Institute of Internal Auditors (IIA)

Netherlands and the Members' Group of Internal and Government Auditors (LIO) of the Royal Netherlands Institute of Chartered Accountants (NBA). It reflects the results of a survey and gives an initial insight into the current state and ambition levels of the IAFs in the Netherlands in this demanding environment. The survey was conducted among members of the IIA Netherlands and the NBA LIO. This publication presents the results for 36 of the approximately 250 IAFs that are members of IIA in the Netherlands.

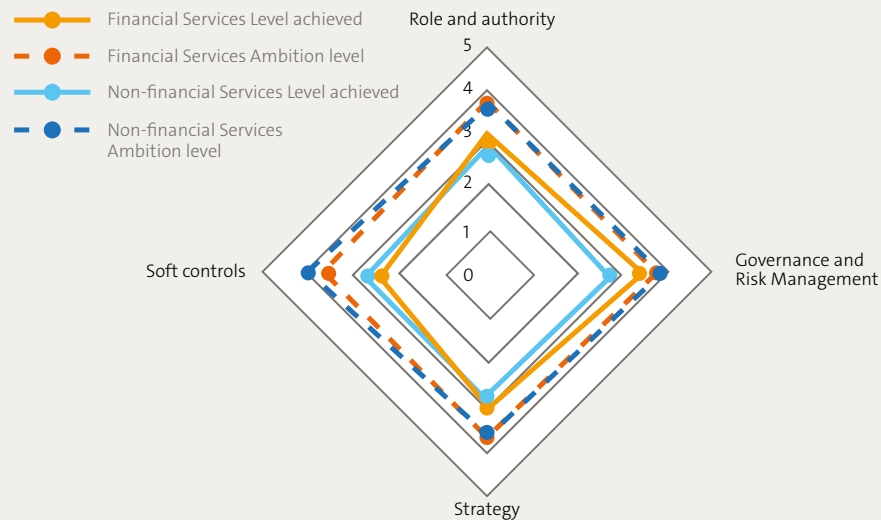
We strongly invite CAEs to participate in the round tables. This will help to complete the picture by the end of the year 2017. Let's take a next step in a broad professional dialogue amongst auditors by sharing experiences and best practices.

On the next pages the key takeaways for 4 out of the 6 themes are presented. For more detailed results and background of the IA AM consult www.iaa.nl

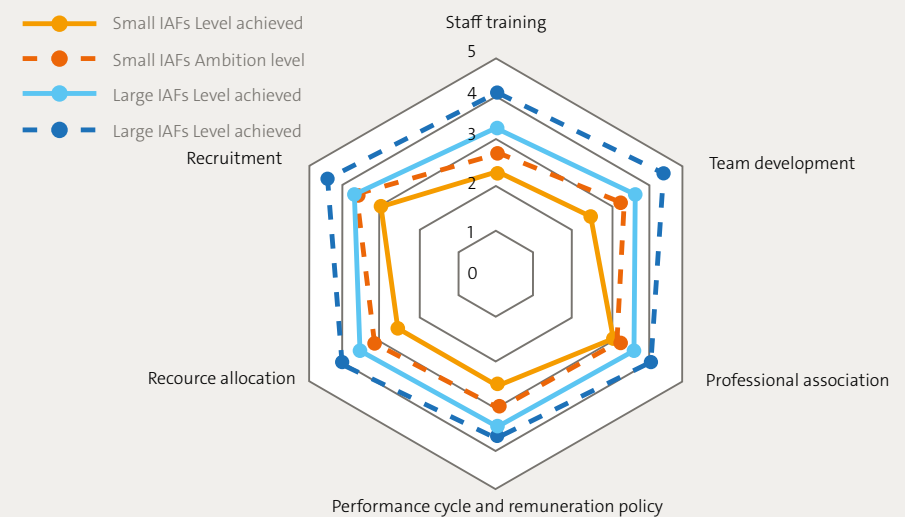
| Theme | Sub theme |
|---|---|
| Services and Role of Internal Auditing | Assurance services Advisory services |
| Professional Practices | Audit plan Quality Assurance |
| Performance Management and Accountability | Internal Audit Business Plan Reporting |
| People Management | Professional Development HR Planning |
| Organizational Relationships and Culture | Organizational Relationships and Culture |
| Governance Structures | Management and oversight of the IA activity Access and awareness |



Financial Services (15) versus Non-Financial Services (21)



Small IAFs: ≤ 5 fte (14) versus large IAFs: more than 5 fte (22)



Service and role of Internal Audit

The means by which the role is accomplished or the services provided varies between different environments. We made the following observations:

- Financial Services (FS) IAFs score themselves slightly higher on the level achieved than Non-FS IAFs
- The ambition level for both industries is almost identical, except for the topic 'soft controls', where Non-Financials are more ambitious than Financials.
- IAFs who perform strategy audits score significantly higher than IAFs who don't perform those audits.
- There is a notable gap between the actual level achieved and the ambition level for the topics 'strategy' and 'soft controls'. The IAFs have a clear desire to develop on the aspect of soft controls. There is a clear need for further guidance and support on these topics.

We remark that the ambition of the Non-Financials in these areas appears to be higher than for the Financial Services. We will further assess these observations as Financial Services are in an extensive regulated environment.

Advisory services

While setting up the IA AM, it was acknowledged that in the Dutch context advisory services are not always in scope by the IAF. The results show only 4 out of 36 respondents stating that advisory services were not applicable for their IAF. This is different from what was expected. Possibly the terminology for advisory services has been used in two different ways when completing the survey. Either consulting as defined in the IPPF Standards or as the natural advisory duty of the IAF.

People Management

Small and large IAFs

We have identified differences between small and large IAFs that provide particular insights. We observed that the large IAFs are clearly making significant efforts to train staff. The overall ambition level for large IAFs is 'Managed'. Of the 14 large IAFs, 7 have already set the maximum score 'Optimised'. This indicates these IAFs facilitate and support top leaders of the IA activity in becoming key leaders within relevant bodies. They stimulate participating in the administration and/or leadership of professional bodies. This helps auditors to learn and practice higher-level people skills, since their role towards their colleagues requires different ways of interacting than their 'auditor' or 'manager' role within their own organisation.

Recruitment

Recruitment is the theme where the small IAFs aim for the biggest increase. Their ambition is to grow from a score of 2.8 to 3.6. Even for large IAFs, recruitment is a theme where growth is still needed; they seek to increase the score from 3.7 to 4.3.

The professional bodies are in consultation with universities and education institutes in the Netherlands to set up an appropriate training to familiarise students with internal auditing. For example: in October 2016 the pilot of NBA LIO at the Tilburg University for Post Master Accountancy was successfully started and will be continued in 2017. This helps us to explain how diverse and challenging our field of work is.

Professional Practices

The average level achieved by the respondents is level 3 'Integrated' and up to standard with the IPPF. The IAFs have risk-based audit plans and a quality assurance framework in place. This includes documentation of an audit manual and an audit rating methodology.

Data analysis

Although IIA and NBA have taken several initiatives (round tables, trainings) on the use of data analysis in audits, actually using data analysis appears to be challenging. The average level achieved is level 2 'Infrastructure'. The gap is especially a challenge for Non-FS IAFs and small IAFs.

FS versus Non-FS

The organisation's enterprise risk management strategies, risk appetite and strategy process are more often

included in the audit universe of FS IAFs compared to their peers in Non-FS. Also, the Audit Committee or a similar committee is more likely to be involved in setting priorities at FS than their Non-FS peers.

It was expected that this difference could be explained by the size of the departments. This was not the case, as the small IAFs were spread evenly over Financial and Non-Financial Services.

Starter training for CAEs

The IIA Netherlands recently set up a starter training for CAEs new to their role. By setting up a training, sharing best practices and offering a coaching programme, IIA Netherlands helps the CAEs to accelerate their professional development and achieve their ambitions. It also supports IAFs getting up to standard with the IPPF.

Performance Management

The average level achieved and ambition stated is level 3 'Integrated'. This means:

- The company's risk profile is taken into account when setting the objectives and results to be achieved by the IA activity.
- The approval of the audit plan is done by a function which enables organisational independence.
- The performance measures are mainly quantitative and focused on basic efficiency and effectiveness metrics. The performance management system is also documented and management reports are sent to direct management and the Audit Committee.

IAFs establish a realistic budget for the activities and resources identified in the IA activity's business plan.

A notable observation for the topic 'Audience' suggests that there is no ambition for Non-FS IAFs to share management reports externally. Although the maximum possible is level 5 'Optimized' for this topic.

Small and large IAFs

Furthermore, small IAFs not performing financial audits have the ambition to measure their performance as a combination of quantitative and qualitative measures on multiple dimensions. Small IAFs performing financial audits have mainly quantitative performance measures and focus on basic efficiency and effectiveness metrics.

FS versus Non-FS

We noted there is no difference between the achieved and the ambition level for the Non-FS and the FS IAFs on the subtheme of budget. This indicates all

