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Discussion paper

Strategy-related auditing

Exploratory research on the consideration of strategic risk and organizational strategy in internal audits



In collaboration with



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Foreword

Dear reader,

This publication ‘Strategy-related auditing’ is the result of a joint effort between KPMG Internal audit, Risk & Compliance services and IIA the Netherlands. The purpose of this research was to explore how company strategies and strategic risks play a part in the internal audit approaches adopted by Dutch corporations.

The research identified no less than nine different archetypes of strategy-related auditing. The applicability of any of them depends on the culture and the maturity levels of both organizations and internal audit functions. As with many aspects of internal auditing, the option chosen needs to be fit-for-purpose. This paper is intended to open the discussion between Chief Audit Executives and their key stakeholders (e.g., the Boards) on incorporating the company’s strategy in internal audit activities. It is also a call to action for those in our profession dealing with professional practices to consider developing additional guidance on this topic for practitioners.

On behalf of IIA the Netherlands I wish to acknowledge the leadership provided by KPMG personnel on this project. KPMG will present the conclusions at the occasion of the 2015 Conference of IIA the Netherlands.

I hope the document will provide you with lots of food for thought.

Vincent Moolenaar,
President IIA the Netherlands

Dear reader,

We are delighted that we have had the opportunity to work together with the IIA The Netherlands on this publication “Strategy-related auditing”. In today’s dynamic business environment organizations face fundamental changes and increased risks and therefore the need for more independent assurance has never been greater, also on strategy related topics.

Amongst Board members (both executives and non-executives) we more often experience a deeper need to understand whether organizations have made the right strategic choices and have subsequently implemented the formulated strategy accordingly. A main point of attention is the degree to which top management is aware of the risks that relate to the chosen strategy. The internal audit function can play an important role in providing these independent insights, but we experience that this is highly dependent on the (perceived) quality of the internal audit function.

We hope that this publication will result in an open discussion between Chief Audit Executives and their Boards, so that the added value delivered by the internal audit function can continue to increase. As chairman of the Audit Committee Institute please consider this as an open invitation to have this discussion together with the members of our institute.

Tom van der Heijden,
Partner KPMG and Chairman of Audit Committee Institute

1 Executive summary

The word 'strategy' can nowadays be found in almost every internal audit activity plan. But what does it actually mean? There are many different manners in which organizations and internal audit functions deal with organizational strategy. This discussion paper 'Strategy-related auditing' explores the role of Internal Audit Functions (IAFs) in the strategic management process of an organization. It is based on documentation and desk research, a questionnaire-based survey amongst Chief Audit Executives (CAEs), personal interviews with CAEs and board members (both executive and non-executive), and several round table discussions with CAEs (in charge of both large and small IAFs).

The objective of this research was to assess the degree to which IAFs are currently considering organizational strategy and the organization's strategic management process in their audit assignments and annual audit plans. Based on this discussion paper we encourage the profession to further explore the topic and for the Institute of Internal Auditors to provide more guidance.

Our exploratory research reveals that there is a wide variety in how IAFs deal with strategic risks and organizational strategy. We found nine appearances of strategy-related auditing during our research. These can be divided into two distinct categories: strategic risk audits and strategy process audits. Strategic risk audits focus on risks that are the result of pursuing certain strategically important organizational goals. Strategy process audits, on the other hand, assess formulation, implementation, evaluation and control of the strategic management process or (the content of) the formulated strategy itself. Four out of nine identified appearances we categorize as strategic risk audits, five we categorize as strategy process audits.



Strategic risk audits in their lightest form are a logical consequence of the widely adopted risk-based auditing approach. Good practices we encountered include explicitly and consistently linking findings back to the organizational strategy and taking a broader (multiple angle) approach where for every audit alignment with COSO ERM components (strategic, operational, financial and compliance) are considered.

In terms of strategic relevance the organizational strategy itself and the process the organization is following is paramount, followed by the strategic topics, themes, decisions and areas that are derived from the organizational strategy. As such, performing strategic risk audits could be seen as a first step towards strategy process audits.

In order to add the most value when performing strategy process audits, respondents indicated that it requires more extensive strategy and strategy implementation knowledge. Therefore strategy process audits might require the inclusion of a strategy subject matter expert in the audit team. But also when performing a strategic risk audit subject matter experts can add additional value to the audits, although this type of audit is often conducted without the involvement of strategy subject matter expertise.

When it comes to the strategy management process, many CAEs have reservations about auditing the strategy formulation phase or assessing the content of the strategy. The majority of CAEs say that strategy process audits should focus on the implementation phase, which deals with translating the strategy into objectives and performance measures, and implementing these into operational plans. Regarding the strategy evaluation phase, there appears to be less demand for a role for the IAF. Most CAEs state that a strategy process audit should be focused on the process of the strategy formulation rather than on its content. However, nearly half of CAEs say that a strategy process audit can apply to both process and content.

Board members are more hesitant than CAEs in general about auditing each of the phases of the strategy process. Some of them say that there is no role for the IAF in the strategy formulation process. Concerns are less for an audit on the following two phases of the strategy process, the strategy execution and evaluation.

Several conditions should be met to make strategy-related audits successful. An important success factor is the relationship with management; there must be a certain level of mutual trust. Seniority of the individual auditors while performing strategy process audits is an asset mentioned several times during the interviews.

Our research reveals that most IAFs focus on strategic risks in their audits and audit plans. Some of the four distinct types of strategic risk audits are common practice for many IAFs. Still more impact can be made by making the link between findings and strategy more explicit. This would close the loop of strategy, strategic risks, audit subjects, observations and findings linked back to strategy again (Demming-cycle Plan-Do-Check-Act). A broad approach to audit subjects as encountered at one IAF (referred to as the COSO ERM approach) can be regarded as one example of a good practice. Further, the results of our study show that IAFs are increasingly involved in auditing the strategic management process. The IAF's involvement and added value are mostly acknowledged when providing information to stakeholders about the quality of strategy implementation through audits. In addition, CAEs are often acknowledged as a valuable sparring partner for management due to their knowledge of the internal organization and its culture.

The eight most important takeaway's of our research are:

1. Every organization has its own approach towards defining and implementing strategy. Differences relate to: the level of detail, the frequency and degree of formalization of the strategy, connectivity with budgets, involvement of internal and external parties, use of programs or projects for strategy implementation, the extent to which the strategy is evaluated, etc.
2. IAFs deal very differently with strategic risks and organizational strategy as well. Most internal audit activity plans include strategy, however what is actually done varies widely between IAFs;
3. A distinction can be made between audit types that focus on strategic risks and audit types aimed at the strategy process and the organizational strategy itself. Nine forms of strategy-related auditing were identified during our research, which we divided over two categories; strategic risk audits and strategy process audits;
4. In general Board Members are more reluctant when it comes to strategy process auditing than CAEs are. Both Board Members and CAEs see added value in auditing strategy implementation and execution, however they have reservations when it comes to auditing the strategy formulation. The reservations mentioned are both principle and practical in nature;
5. Most organizations and their IAFs focus on strategy formulation and execution, whereas few seem to engage in formal strategy evaluation;
6. The relationship between the CAE and the Board and the perception that the Board has of internal audit is a decisive element in whether the IAF will be asked to perform strategy-related audits;
7. IAFs that conduct strategy related auditing, especially in case of strategy process auditing, often choose other means to communicate the results of their work than formal audit reports including audit opinions and ratings.
8. There is much interest amongst CAEs for the topic of strategy-related auditing. One of the main current constraints in performing such audits is the lack of publicly available guidance. More guidance is desired as organizations that are ahead with strategy-related auditing had to find their own way.

1 Introduction and context

1.1 The evolving role of internal audit

Traditionally IAFs focus on compliance and internal control, performing financial, operational and compliance audits, with the prime aim of contributing to the organization's objectives of being 'in control.' The question however is whether an organization is 'in control' when data and business processes are being controlled, or when the organization adopts the strategic initiatives needed to adequately anticipate and respond to changing business conditions and opportunities. In short; is the organization doing things right, or is it doing the right things? Both are prerequisites to be in control and can therefore be addressed by internal audit.

The development in many organizations towards integral thinking and reporting has enhanced the role of internal auditors. The scope of the IAF is gradually evolving from mere 'value protection' to also include activities focused on 'value enhancement', with a focus on long-term shareholder value, risk identification and optimization, including strategic risks. This view is in line with the view of the Global Chairman of the Board of the Institute of Internal Auditors (IIA), Anton van Wyk, according to whom the most important responsibility of an internal audit function is to understand the organization's strategy and its risk landscape. The IAF can utilize its internal risk and controls savvy to challenge management's assumptions about future opportunities and threats. This implies a shift for internal audit from looking back at past performance to a more forward-looking approach: what events may keep the organization from achieving its objectives? This with the goal of adding value to the strategic decision-making process and ensuring that the direction a company has chosen is indeed being followed.

Van Wyk's viewpoint is consistent with the IIA Standards. Standard 2120.A1 mentions that: "the internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the achievement of the organization's strategic objectives." Further, the IIA's International Professional Practices Framework (IPPF) "Re-look" Task Force (RTF) proposes the introduction of core principles for effective internal auditing.

According to the fifth principle, effective internal auditing "aligns strategically with the aims and goals of the enterprise." Both the current version of the Standards and its proposed renewal allow for auditing the organizational strategy itself.

1.2 About this discussion paper

It is widely known that today's agile business and regulatory environment require better and faster strategy evaluation and adaptation. Little attention has however been directed towards the question whether IAFs could help management and supervisory boards in performing this task and, if so, what their role would be? The goal of our research was therefore to explore the degree to which IAFs are currently including the organizational strategy and the organization's strategic management process in their annual audit plans as well as gaining insight into their current efforts and audit activities.

This discussion paper presents the key observations of our exploratory research. As we found different ways on how IAFs deal with strategic risks and organizational strategy we have chosen to make a distinction between strategic risk audits and strategy process audits. Of these nine different appearances that we

found, four were clustered as strategic risk auditing, and five as strategy process auditing. A summary of all types is included in the appendix. Data was gathered via an online survey for CAEs as well as numerous personal interviews with CAEs and with a number of executive and non-executive board members. We have asked them about their experiences and expectations, the capabilities the IAF would require and the added value the IAF can offer. The answers show a wide range of views - with some thought-provoking statements - which we trust will provide ample 'food for thought'.

2 Strategy and strategy-related audits

2.1 Organizational strategy - a diffuse landscape

During our conversations about organizational strategy and its importance, our interviewees often replied: ‘but what do you regard as strategy?’ We learned that the strategic management process is approached very differently amongst organizations. The process often comprises both a top down and bottom up approach. The degree to which external strategy consultants, internal strategy departments as well as non-executive board members are involved also varies widely between organizations. Strategy implementation is conducted via isolated programs and/or projects as well as via organization-wide roll-outs. Strategic management cycles can last anywhere between one to five years, with or without periodic updates. Lastly, rather than a structured, deliberate approach to the strategic management process, various organizations prefer a more organic and emergent approach.

All surveyed CAEs state to be familiar with the strategy of their organization and with the risks related to the realization of the selected strategy. 58 percent of the CAEs indicate that their primary stakeholders (Executive Management and/or the Supervisory Board) request assurance on the strategic process(es), although more than eight out of ten CAEs see a role for the IAF in this matter. More than half of the CAEs state that the requested assurance is currently provided by the IAF, while 30 percent indicate that the internal strategy department provides assurance on the strategic management process.

2.2 Two categories of strategy-related audits

Audits related to the organizational strategy can be divided into two distinct categories; strategic risk audits and strategy process audits. Strategic risk audits focus on risks that are the result of pursuing certain strategically important organizational goals. A strategy process audit is an assessment of the strategic management process or even of (the content of) the formulated strategy.



A strategy process audit can apply to one or more of the three phases within the continuous strategy development cycle (formulation, implementation and evaluation).

Based on empirical evidence we have identified nine appearances of strategy-related auditing. The strategic risk audits fall into four distinct appearances. Strategy process audits can be categorized into five different appearances. All nine appearances are further elaborated upon in the next two sections. A summary of all appearances is included in the appendix. In the remainder of this discussion paper we discuss strategy process audits in more detail than strategic risk audits, including arguments for and against, required techniques and competences, and factors for success and failure. The reason for this is that strategic risk audits are closer to current internal audit practices at many IAFs. Strategy process audits, on the contrary, are still less common practice. Therefore, we believe readers benefit from additional explanation on strategy process audits.

Are strategy-related audits a distinct audit type?

A strategy-related audit is not always seen as a distinct type of audit, compared to the more common audit types such as operational, financial and IT audits. Many IAFs consider organizational strategy and strategic risks as the starting point for each audit. Others view strategy process audits as a regular operational audit. A third group does not structure their audits by type but by topic, and provides assurance on all relevant risk types during these audits. According to these CAEs, 'labelling' audits does not always seem to do justice to the complexity of the audit subject.

"I struggle with labelling audits. It hurts."

(A CAE during a roundtable meeting)

3 Strategic risk audits

3.1 Strategic risk audits

In this section we will discuss strategic risk audits by elaborating on the four different appearances of strategic risk audits that we identified during our research. The goal is to give an idea on how IAFs include strategic risks into their internal audit plans. Subsequently we will share our insights gathered from CAEs and their primary stakeholders on the experiences they have with strategic risk audits, the capabilities the IAF would require and the added value the IAF can offer. A summary of the four appearances of strategic risk audits is included in the appendix.



I Risk-based auditing

Nowadays risk-based auditing is common practice for many IAFs. However this does not necessarily imply auditing of strategic risks, as audits might focus on other objectives too (e.g. the other three categories of objectives in the COSO ERM model).

The results of the online survey show however, that in many IAFs strategy is a common subject. About 86 percent of the CAEs state that strategic topics are currently incorporated in (the risk assessment for) the annual audit plan.

During our research we encountered a few IAFs that consistently linked all their findings back to the strategic pillars the organization has defined. We consider it a good practice to show how the relevance of internal audit findings can be further emphasized.

As risk-based auditing with consideration of strategic risks is already common practice within most IAFs, this implies that not many changes are required in order to apply this rather 'light' form of strategic auditing.

II Strategic risk project auditing

Strategic risk project audits refer to the projects that could be regarded as an enabler of organizational strategy rather than a driver. Examples include the audit of a Finance Transformation program to align the finance organization with the growth and further professionalization of the organization.

This audit type can be performed with regular program or project auditing methodologies, which are already widely used by most IAFs. Often these methodologies are associated with more participative forms of audit-

ing (e.g. QA-role) rather than more formal types of audits. For this reason, such activities are often regarded as consulting rather than providing assurance activities.

In terms of capabilities, auditing these projects requires at least knowledge of and experience with program or project auditing. A basic understanding of strategy and its execution is also required.

It is important that expectations are well managed with the IAFs stakeholders, including those that may be less familiar with the limitations of internal audit. Although inherent to internal audit, a potential risk is that it might lead to false expectations as it provides assurance on the risks that might lead a strategy to fail rather than focusing on the factors that might lead a strategy to become successful.

In other words, this audit appearance could lead to a false sense of security as good management of strategic risk projects does not provide assurance on the degree to which the strategy will actually be realized.

III Decentralized strategic alignment

From interviews with CAEs we learned that audits at a relatively operational level are often used to assess a local entity from a wider perspective by also looking at its strategy, plans, goals, management information, etc. As part of such a review, a check is performed on alignment of the operational level with the central level on these elements.

Similar to the previously mentioned forms of strategic risk audits, this audit appearance would not require many adjustments compared to existing practice for most IAFs. Internal audit can be group management's tool to keep an ear to the ground to provide additional assurance on alignment with group strategy and provide an early warning signal in case of deviations.

However this type of audits also includes some specific risks. The focus on strategic alignment is mostly an addition to the core-audit subject (e.g. financial processes) and is therewith often considered a side product rather than the main subject of the audit. This could lead the internal auditor to do a plausibility check rather than an in-depth review of the local strategy and its alignment with the central strategy, leading to a false sense of security.

Another risk is that it could be difficult for internal audit to determine whether the decentralized strategy is aligned with the organizational strategy. The relationship between decentralized and centralized strategy is not always a simple one-to-one, because often there is a need for local initiative based on local circumstances. Subsequently, if both are aligned, it can still be difficult to determine whether the local strategy is actually any good. This means that expectations regarding the degree of assurance that will be provided on the decentralized strategy should be properly managed throughout the audit process towards all relevant stakeholders.

IV COSO ERM approach

Another form of strategic risk auditing consists of the execution of audits against all classes of objectives and risks from COSO-ERM. This means that for every audit engagement an assessment is made of the relevance of strategic, operational, (financial) reporting and compliance objectives. All audits consider the relevance of all these objectives and their associated risks. Based upon the confirmed relevance, audit procedures are tailored to address management's mitigation of the various risks. As a first step in the audit,

an assessment is made of the SMART-ness of the objectives of the activity in scope (e.g., an end-to-end process or a small entity) in view of the overarching strategy of, ultimately, the company as a whole. Specifically, are the objectives of that specific activity 'aligned' with the overall direction of the enterprise; is that reflected in the personal goals set for responsible management; is there evidence that relevant parts of the company strategy are being implemented; is there adequate reporting and monitoring on the progress of such implementation; and is there a feedback loop to amend either the strategy or the implementation thereof in case execution falls behind plans. As with other elements of management's control framework, auditors strive to obtain evidence for effective application of the customary 'Deming cycle' (Plan-Do-Check-Act).

A critical success factor for such audits is the ability of auditors to 'ask the right questions'. Often the process through which strategy is defined, implemented and monitored follows a slightly less formalized process than an average accounts payables process. Auditors need to have sufficient maturity to engage with senior management on the question whether management's approach can be considered 'fit for purpose'. Being able to assess the suitability of the approach adopted by management, the process followed to take decisions, the transparency with which risks were disclosed and how dilemmas were addressed requires strong judgment skills from the audit team. Diverse audit teams representing various functional disciplines and with some line management experience, supported by the CAE, are essential for conducting such audits.

With such broad-scoped audits, considering all COSO-ERM risks, the CAE needs to manage the audit teams to prevent them from simply 'scratching the surface' and not going deep enough in each of the respective risk areas. In this appearance it's simply not acceptable to merely report findings on strategic or operational controls, while not having properly assessed the basic controls which most stakeholders will still consider to be the primary task of the IAF.

The relevance of the organization's strategy comes into play again when formulating recommendations to remediate both the deficiencies observed and the connected root causes. In all instances, recommendations need to be consistent with the overall direction of the organization, irrespective of whether the area under review is a business unit, a division or, indeed, the organization as a whole. This is particularly true when the audit team aims to address the root cause by, often, more structural improvements to the organization's way of working.

Such an integral approach to a certain topic or theme provides a more complete picture of relevant risks rather than just focusing on one aspect or process. As a result, this audit appearance provides more relevant information to management, which is why we regard it as a good practice. However, further guidance for this audit appearance would be desirable.

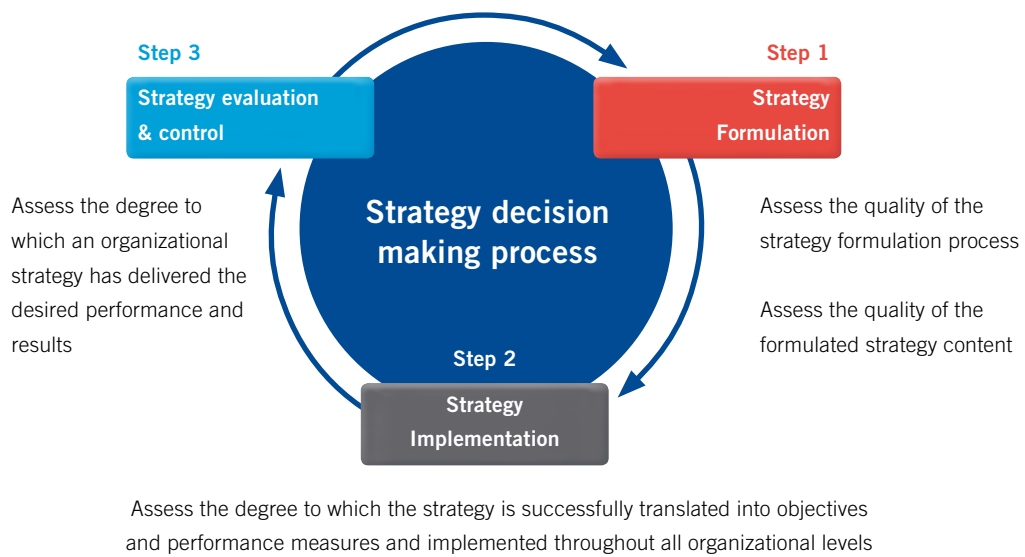
4 Strategy process audits

4.1 Strategy process audits

In this section we will discuss internal audit's role during different phases of the strategic management process and explain the five appearances of strategy process audits that we have identified based on our research. All five are summarized in the appendix. The order in which we discuss the appearances follows the phases of the strategy process. Please note that auditing the strategy process is not limited to just one of these phases. An example of a reference model for an audit that covers the full strategy cycle is included in appendix II. Furthermore we will share our insights gathered from the survey and the interviews performed with CAEs and their primary stakeholders regarding their experiences with strategy process audits, the capabilities the IAF would require, the added value the IAF can offer and the factors that determine success or failure of these audits.

The strategy process audits will be discussed in more detail than strategic risk audits (previous chapter), as strategy process audits are still less common practice. We trust that this will be useful for further discussion.

Figure 2: The three phases of a strategy process and their audit focus



V Strategy formulation process auditing

The first appearance of strategy process audit, auditing of strategy formulation phase and the strategy itself, is perceived as the most difficult and raises the most objections with Board Members and CAEs. Most CAEs have reservations about auditing the strategy formulation, primarily because this is the realm of senior management and the IAF does not want to put itself in the driver's seat. The same applies to assessing the content of the formulated strategy. Most CAEs say that strategy formulation is done by Senior Management and Supervisory Board members, with the assistance of internal and external strategy experts. Therefore, CAEs are reluctant to perform an audit as Senior Management and the Supervisory Board members don't see the added value. Many CAEs stated that internal audit could be asked to challenge the information and assumptions on which the strategy is based, and also whether the right tools and resources are being used in the strategy formulation process. One CAE stated that it would be a missed opportunity if IAFs don't perform audits on a number of key risks during strategy formulation.

As for the stakeholders of the CAE, a non-executive Board member mentioned that internal audit can have a valuable opinion about the viability of a new strategy, given the IAF's knowledge of the organization, the competencies, processes and IT infrastructure. However, other non-executive Board members say that there is no role for the IAF in the strategy formulation process. One of the reasons is that internal audit is not considered as a competent business partner in this matter, mainly due to a lack of knowledge of the external business environment.

"If I would have done over the past few years what my Audit Committee would request, I would still look at piles of invoices."

(A CAE during a roundtable meeting)

Process, content or both?

When it comes to auditing the strategy formulation, we make a distinction between auditing the strategy formulation process and the content of the strategy. Both can be addressed in an audit. The distinction between the two is that an audit on the process focusses on matters such as the subsequent steps taken, the parties involved, the presence of certain consideration for the strategy and the communication of the strategy. An audit on the content of the strategy challenges the consideration (wrong, right, omitted, insufficiently substantiated, biased (e.g. teleological) etc.) that the strategy was founded on.

An audit focused on the strategy formulation process deals with questions like:

- What subsequent steps were taken to come to the (new) strategy? Was there a robust process?
- Were relevant parties (sufficiently) involved, e.g.: an external strategy advisor involved, the internal strategy department, and/or the Board, etc.?
- How was the strategy challenged? Was countervailing power organized?
- Were assumptions clearly set out?
- Were lessons learned considered?
- Was sufficient consideration given to internal and external factors (by means of analysis)?
- Is explicit thought given to the risks of the new strategy?
- Was the strategy made 'tangible', e.g. SMART-criteria?
- Were several scenario's drafted?
- What means were used to communicate the strategy throughout the organization?
- Does everyone know what is expected of him/her?

Examples of relevant questions for auditing the content of the strategy are:

- Were all relevant factors included in the analysis? Were important factors omitted?
- Are assumptions validated and sufficiently substantiated? Are there any relevant assumptions missing?
- Is there consistency in reasoning?
- Are calculations that substantiate the strategy correct?

Nearly half of the CAEs said that a strategy process audit can apply to both process and content (e.g. correctness of the assumptions that support the formulated strategy), although none said that strategy content should be the sole object of an audit. According to several CAEs it is very difficult to give assurance - an important task of the IAF - on strategy content. Consequently when these types of audits are requested, IAF's efforts are directed towards auditing the strategy development process. As for other audits, an auditor can not tell whether the company has chosen the right strategy. Internal audit can only challenge the strategy chosen by management and give assurance on its foundation.

One CAE added that with respect to strategy content there might sometimes be a need for an advisory role to compare the strategy with competitors. In addition, when, in his or her professional judgment, the internal auditor has concerns about risks associated with the organization's strategy, these should be expressed in a manner deemed suitable for the topic. Such concerns could be voiced through a periodic Audit Memorandum or informal discussions with the Management and/or the Supervisory Board.

VI Auditing of decentralized strategies

The objections regarding auditing the strategy formulation process or even the strategy itself seem less strong when it comes to decentralized organizational strategies, e.g., on a business unit level. The key reason for this is that business unit management is now being reviewed, and not Executive Management.

In addition, decentralized strategies could be reviewed for alignment with corporate strategy. This is an easier and more practical starting point for drafting a working program than the assessment of the external and internal environment that forms the basis for the corporate strategy.

VII Strategy implementation auditing

Many CAEs argue that strategy process audits should focus on the implementation phase. This deals with translating the organizational strategy into objectives and performance measures as well as implementing these into operational plans and budgets. Examples mentioned by CAEs are the implementation of an HR or an ICT strategy.

Within this phase, strategic choices made by management are treated as a 'given' from which change programs and strategic projects are initiated on a tactical level. Internal audit can assess whether the strategy has been translated properly into tactical and operational plans and verify if a suitable governance structure is in place (management, decision making, responsibilities and reporting). Audits could also compare different projects to see whether problems or risks repeat themselves.

A non-executive Board member indicated that the IAF can add value by assessing the risks associated with strategy implementation. The Audit Committee can request the IAF to assess the implementation of strategic projects by provide an opinion on related internal (financial) reports, and assess if the culture is supporting or undermining a successful implementation.

“Where we as internal audit really can add value is on auditing of strategy implementation.”
(A CAE said during a round table meeting)

VIII Strategy process program auditing

Strategy process programs are a type of program or project that focuses on the strategy’s building blocks, meaning that the programs and projects are a direct result of the formulated strategy. Examples of strategy process programs are disentanglements, cost-saving programs, or the roll out of a new telecommunications infrastructure (e.g. 4G network).

Strategy process program auditing has many similarities with previously discussed strategy implementation auditing. The main difference is that strategy process program auditing requires the use of program/project auditing methodology.

IX Strategy evaluation and control auditing

Internal audit can conduct an audit on the strategy evaluation already performed in the organization, or evaluate the organizational strategy directly by means of an audit. In either case internal audit might look back at the previous two phases of the strategy process, being strategy formulation and/or strategy implementation. As for an audit on the strategy formulation such an evaluation could focus on both the process and content of the strategic decision making.

With hindsight internal audit could, for example, assess whether relevant factors were ignored, that could have been known at the time of strategy formulation and which manifested later on. As this type of audit is conducted at the very end of the strategic processes, its sole purpose is determining lessons learned to the organization and provide input for the new strategy management process.

The interviews showed that there appears to be less demand for a role for the IAF in the strategy evaluation phase. In several organizations the strategy is evaluated informally as part of the new strategy formulation process. Examples of a formal strategy evaluation are therefore limited. One of the examples mentioned during an interview was the evaluation of an unsuccessful merger leading to a breakup, in which internal audit played a role.

As an explanation for the low interest for strategy evaluation, a number of CAEs and Board Members stated that the top level of their organization was more interested in looking towards the future than analyzing the strategic choices made in the past. This means that strategies and their (intended) outcome are often not evaluated formally.

Further, it could bring internal audit in a position that it has to confront management with mistakes from the past, which can not be used for steering the approach (as for audits on strategy implementation), but can only be used for the future strategy process.

4.2 Pro’s and con’s of strategy process audits

CAE opinions regarding auditing the strategy process depend on the phase of the process. A majority of the surveyed and interviewed CAEs have reservations about auditing the strategy formulation process, but

are open to auditing strategy implementation and evaluation. The survey reveals that 89 percent of CAEs indicated translation and implementation of strategy as a potential audit topic, and 92 percent mentioned the quality of managerial evaluation and control mechanisms as a possible topic. Board members are more hesitant than CAEs in general about auditing each of the phases of the strategy process.

Arguments in favor of auditing the strategy process are:

- Organizational strategy is a high risk area;
- Strategy process auditing belongs to the IAF's mandate according to the IIA;
- The IAF's expertise and its independent position make it suitable for playing a role in the assessment of the strategic management process; and
- The IAF is well-equipped to assess, particularly in the formulation phase, whether or not a strategy is realistic and what could be the bottlenecks in its implementation because it has knowledge about organizational culture, the structure and systems used as well as organizational history.

Arguments against an active role for the IAF in auditing the strategy process can be categorized into practical or principled arguments. As said, the objections mainly focus on the IAF's role in the strategy formulation process and not so much on strategy implementation or evaluation and control.

"We have to create demand and we have to protect the position that we sometimes do not have."
(A CAE during a round table meeting)

- A principled argument is that auditing the strategic management process could jeopardize the independent position of the IAF, as the Board, who is responsible for, and often directly involved in the strategy management process, might feel criticized by audit findings on the strategy process.
- Some CAEs and Board Members generally indicated that assurance on strategy-related subjects is difficult to obtain and, consequently, can create a false sense of security. The process of strategy formulation can be sound, but this does not mean the strategy itself is valid or appropriate. Auditor cannot give assurance that all relevant external factors have been taken into account.
- Determining the desired situation and capturing it in a reference model is perceived to be quite difficult.
- A practical factor mentioned was that the IAF lacks the capabilities and the mindset required to review strategy.
- CAEs and Board Members stated that the strategic management process, employing both strategy consultants, internal strategy departments (if any), and the Executive and Supervisory Board, is already quite robust.

- There is limited or no demand for strategy process audits (expected), and that the concept has been invented by the internal audit profession itself and not by its primary stakeholders. Some of the interviewees indicated that strategy is or should be a core competency of the Board.
- Several interviewees indicated that an organization perceives itself as good at making plans, but rather poor in terms of their implementation and execution. This is both an argument in favor of auditing the strategy implementation, as well as against an audit on strategy formulation.

“If the Audit Committee doesn’t trust the strategy they will liaise with the Board and bring strategy consultants.”

(A CAE during a round table meeting)

Concerns

A non-executive Board member and a CAE both cautioned that CAEs must ensure that profound knowledge of financial processes and financial auditing remains present within their IAFs. This is not so much an argument against strategy process audits, but rather a suggestion that strategy process audits should be conducted in addition to the more traditional types of auditing rather than replacing them. The CAE observed that if traditional types of audits are neglected, this might lead to new scandals which could do considerable damage to the internal audit profession.

4.3 Techniques and competencies

In general, the techniques and methods that the IAF has at its disposal were considered to be adequate for performing strategy-related audits. CAEs also considered the current reporting structures to be sufficient for reporting the outcomes of strategy-related audits.

At the same time, many of the organizations that conduct strategy process audits usually do not use audit ratings or even audit opinions, as they normally do for internal audits. According to some of the CAEs the reason for this is that the concept is relatively new or that a good reference model (stating the desired situation) could not be created, hampering the ability to create a solid basis for judgment. Others were reluctant to confront their Boards with the outcomes of their work and were concerned about their independence.

As mentioned earlier, the IAF can have many roles that can be applied to strategy process audits. A CAE mentioned the four roles ascribed to him, which are also defined in the internal audit charter - ‘assurance provider’, ‘watchdog’, ‘doctor’ and ‘advisor’. This implies that there are other means of providing feedback on strategy to the organization apart from a formal audit report.

“We should release ourselves from the idea that we only have one product (audit reports).”
(A CAE during a round table meeting)

According to CAEs, audit teams require the following key competencies to successfully perform strategy-related audits:

- Communication skills;
- Problem identification and solution skills;
- Keeping up to date with industry and regulatory changes as well as professional standards; and
- Knowledge of strategy (e.g., methodology, tools and techniques).

About 60 percent of the interviewed CAEs think that their IAFs possess these competencies. CAEs also identified strategic management, change management, operational excellence and internal audit standards as essential topics about which an audit team should have specific knowledge. Several IAFs have included external strategy experts in their audit teams as subject matter experts. A CAE stated that this cooperation embodies a perfect match as Internal Audit possesses not only the relevant knowledge and experience, but also has specific knowledge of the internal organization (e.g., capabilities and competencies) that can be combined with strategy and market knowledge of the strategy consultant.

4.4 Factors for success and failure

During the interviews, several remarks were made about the conditions that need to be met in order to make strategy process audits a success.

An important success factor is the relationship with Management. There must be mutual trust as sensitive information is being exchanged. Most IAFs have a direct reporting line with the Audit Committee, which is seen as indispensable. Several CAEs (in charge of both large and small IAFs) stated that it takes a “mature” Management Board to be able to perform strategy-related audits successfully. According to a Board member, the IAF can be a valuable sounding board for top management, but not by definition. This depends on the personality of the internal auditor and the organizational knowledge he/she possesses (apart from the required expertise) and is not related to the size of the IAF. The internal auditor must be able to step out of the traditional “audit role”.

On the other hand, Internal Audit's reputation and stakeholder perception within the organization were cited by several CAEs as an obstacle for being offered the possibility to perform strategy process audits. Several CAEs and Board Members pointed out that IAFs are still associated with their historic compliance and financial reporting roles. Not all primary stakeholders regard their IAF as an important element in the strategic management process.

Several interviewees considered seniority an asset while conducting strategy process audits. It was not a reference to age, but the experience and authority required to be a sparring partner to Management in the organization. CAEs therefore tend to ensure that their team comprises more senior auditors for these type of audits.

5 Conclusion

5.1 Research conclusions

The focus of this research was to assess the degree to which IAFs are currently including organizational strategy and the organization's strategic management process into their annual audit plans as well as gaining insight into their current efforts and audit activities.

Our research shows that many IAFs are currently already conducting some sort of strategy-related audit. However, the degree to which IAFs are including organizational strategy and the organization's strategic management process into their annual audit plans varies widely amongst organizations. The primary determinants include the relationship with the board, board member preferences, past experiences of IAF stakeholders and stakeholder perceptions of what internal audit is (or should be). As this seems to be a relatively new subject for most IAFs, guidance for performing strategy-related audits is desired and organizations are finding their own way.

During our research we noticed that CAEs were sometimes in doubt as to whether strategic risk audits and/or strategy process audits were actually performed. Along the way it became clear that a main distinction is whether an internal audit is related to a strategic subject or the organizational strategic management process itself. The first category was observed often throughout our research, while the number of organizations that conduct strategy process audits is still limited.

We have argued in this discussion paper that an internal audit on the strategy process itself could relate to each or all of the three main phases of the strategic management process: strategy formulation, strategy implementation and strategy evaluation.

Many objections and obstacles were identified regarding internal audits that focus on the strategy formulation, especially when the content of the formulated strategy itself is audited. The objections and obstacles mentioned were both principle and practical in nature and were shared by CAEs and internal audit stakeholders.

There was much interest in audits covering the strategy implementation and many current examples were brought to the table. Both CAEs and IAF stakeholders believe that internal auditors could add great value in this area. Auditors were perceived as competent and knowledgeable regarding this subject and many organizations see room for improvement in the area of actually bringing formulated strategies into action.

It appears (explicit) evaluation of the strategy is not quite common in most organizations. Board members tend to be more future oriented when it comes to strategy. Therefore, there seems to be less potential for audits on strategy evaluation. Only a few interviewees mentioned that audits were performed on strategy evaluation.

5.2 Future research opportunities and next steps

Internal audit's role in organizations has been subject of discussion for several decades. Our profession has seen many changes, for instance in the type of audits performed, as well as the subjects included in our audit programs. Also, required capabilities and the usage of audit tools and techniques have been a point of discussion in our profession.

A general development is the change from performing internal audits related to value protection towards increasingly performing audits that focus on topics and areas of value creation. Strategy-related audits are considered an example of audits focused on value creation. We believe that this discussion paper is a good starting point to open a discussion within our profession. Hopefully this will lead to knowledge sharing and the creation of tools and techniques that support organizations in strategy-related auditing.

Important questions to be answered include:

- Who should take the initiative for strategy-related auditing? Should CAEs or their stakeholders be in the lead?
- What does the roadmap look like for IAFs to move towards (the various forms of) strategy-related auditing?
- What further guidance is desired for conducting strategy-related auditing?
- What can be regarded as 'good practice' for strategy-related auditing?

We consider the outcomes of this research as a starting for further discussion on the topic of strategy related auditing within the profession of internal auditing. Readers are very much invited to contribute to this topic, in order to further develop the profession of internal auditing and contribute to the continuous relevancy of internal audit for the organization it serves.

I Strategy-related audit appearances

Strategic risk auditing

The table below summarizes the four different forms of strategic risk auditing that we encountered during our research and compares these by providing some main characteristics per form.

Strategy phase(s)	I Risk-based audits	II Strategic risk project auditing	III Decentralized strategic alignment	IV COSO ERM approach
Description	<ul style="list-style-type: none"> • Risk-based selection of audit subjects, including risk (indirectly) derived from the organizational strategy. • This appearance can be regarded as the 'lightest' form of strategic risk auditing. 	<ul style="list-style-type: none"> • An internal audit focused on projects that contain risks that can negatively impact the realization of the organizational strategy. • The type of projects that are subject to this type of audit are projects that follow the strategy and do not drive the strategy; these are an enabler of strategy rather than a strategy driver. 	<ul style="list-style-type: none"> • As part of an internal audit at an operational level also alignment with the higher level (group/company) strategy is assessed. 	<ul style="list-style-type: none"> • Audits are performed against all classes of objectives and risks from COSO-ERM. This means that, in principle, for the purpose of every audit engagement an assessment is made of the relevance of strategic, operational, (financial) reporting and compliance objectives.
Audit object	<ul style="list-style-type: none"> • Diverse, any risk-based topic (directly or indirectly) derived from overall strategic organizational goals. 	<ul style="list-style-type: none"> • Programs or projects aimed at strategy enablers 	<ul style="list-style-type: none"> • Primarily processes on an operational level; and • Secondly the cascading of the central strategy, goals, management information to a decentralized level and alignment with the higher level. 	<ul style="list-style-type: none"> • Themes or broad topics
Examples	<ul style="list-style-type: none"> • Regular process audits, e.g. P2P, procurement strategy, information security 	<ul style="list-style-type: none"> • A Finance Transformation program aimed at aligning the finance organization with the growth and further professionalization of the organization as a whole, • Moving to a new office building to facilitate the growth of the company or enable a different organizational structure. 	<ul style="list-style-type: none"> • A business process review of the finance processes at subsidiary X. • Next to that the alignment of decentralized organizational strategy, goals and management information with the Group level strategic goals. 	<ul style="list-style-type: none"> • Audit on Cost management. <ul style="list-style-type: none"> Strategic: The auditors first assess, for example, whether the Cost savings program is aligned with the company's other strategic goals and whether the program was resourced with sufficient capabilities. Operational: As the program had been translated into series of separate initiatives across the company globally, the auditors assessed typical program and project management controls. (Financial) Reporting: In order to both warrant adequate external disclosures of progress against the stated savings goal, but also to ensure that executive management and the Supervisory Board were appropriately informed, emphasis was put on the control framework surrounding internal and external reporting.

Strategy phase(s)	I Risk-based audits	II Strategic risk project auditing	III Decentralized strategic alignment	IV COSO ERM approach
				Compliance: Finally, compliance with, for instance, internal policies related to accounting and contract management were also audited.
Methodology (tools and techniques)	<ul style="list-style-type: none"> Regular internal audit methodology 	<ul style="list-style-type: none"> Program/project audit methodology Program and project auditing is often conducted by more participative forms of auditing (e.g. QA-role) rather than more formal types of audits resulting in audit reports. For that reason this is often regarded as consulting rather than assurance. 	<ul style="list-style-type: none"> Regular internal audit methodology 	<ul style="list-style-type: none"> Regular internal audit methodology, with more 'dynamic' application of the working program
Capabilities (knowledge, experience, seniority and reputation)	<ul style="list-style-type: none"> Regular internal audit capabilities. 	<ul style="list-style-type: none"> Knowledge of and experience with program or project auditing is required. A basic understanding of strategy and its execution is desired. 	<ul style="list-style-type: none"> Regular internal audit capabilities; and Some knowledge of strategy and its execution would be required. 	<ul style="list-style-type: none"> Critical success factor for such audits is the ability of auditors to 'ask the right questions'. Auditors need to have sufficient maturity to engage with senior management on the question whether management's approach can be considered 'fit for purpose'. Diverse audit teams representing various functional disciplines and with some management experience, supported by Audit Management, are essential for conducting such audits.
Advantages	<ul style="list-style-type: none"> Risk-based auditing is already common practice for most internal audit functions. This implies that not many changes need to be made to apply this rather 'light' form of strategic auditing. 	<ul style="list-style-type: none"> Program and project auditing is not new, but already applied by many internal audit functions. Project by nature tend to have a clear link to organizational strategy. 	<ul style="list-style-type: none"> This form auditing doesn't require many changes compared to existing practice for most internal audit functions. Internal audit can be group-management's eyes and ears on the ground to provide additional assurance on acting in accordance with group strategy and provide an early warning signal in case deviations might be present. 	<ul style="list-style-type: none"> An integral approach to a certain topic or theme provides a more complete picture of relevant risks rather than just focusing on one aspect or process. Therewith it provides more relevant management information to management.
Risks	<ul style="list-style-type: none"> There is a weak and far indirect link between the audit object and organizational strategy. Therefore its doubtful what degree of assurance such an audit could provide on the realization of strategy. 	<ul style="list-style-type: none"> This type of audit provides assurance on the risks that might lead a strategy to fail rather than focusing on the factors that might lead a strategy become successful. In other words, this type of audits could lead to a false sense of security as good management of strategic risk projects does not give assurance that the strategy will be realized. That depends on other factors as well (strategy drivers). 	<ul style="list-style-type: none"> The focus on strategic alignment is more a by-product than the main focus of the audit. This could lead the internal auditor to do a plausibility check rather than an in-depth review of the local strategy. The relation between decentralized and central strategy is not one-on-one, but the central strategy will leave room for local interpretation based on local circumstances. Therefore it could be difficult for internal 	<ul style="list-style-type: none"> With such broad-scoped audit, considering all COSO-ERM risks, the risk needs to be managed that audit teams simply 'scratch the surface' and do not get deep enough in each of the respective risk areas. It's simply not acceptable to merely report findings on strategic or operational controls, while not having properly assessed the basic controls which most stakeholders will still consider to be the primary task of the IAF.

Strategy phase(s)	I Risk-based audits	II Strategic risk project auditing	III Decentralized strategic alignment	IV COSO ERM approach
			audit to determine whether the decentralized strategy is aligned with the central strategy, or if both are aligned, it can be difficult to tell whether the local strategy is good.	
Way forward	<ul style="list-style-type: none"> Internal auditors should be conscious of how the audit subject and the findings relate to the organizational strategy. This could be made explicit in the audit report. We have seen one IAF which consequently ties back each finding to one of the strategic pillars of the organization. 	<ul style="list-style-type: none"> Unclear whether the impact on the strategy is always assessed as criterion to prioritize programs and projects for a future audit. 	<ul style="list-style-type: none"> A good practice with audits at remote locations is to not only assess certain pre-selected processes, but in addition to that verify alignment with organizational strategy at multiple aspects. 	<ul style="list-style-type: none"> A good practice to approach a new audit object broadly by considering a variety of aspects amongst which the strategic aspects as well. Further guidance for this type of audit would be welcome.

Strategy process auditing

	V Strategy formulation process auditing	VI Auditing of decentralized strategies	VII Strategy implementation auditing	VIII Strategy process program auditing	IX Strategy evaluation and control auditing
Description	<ul style="list-style-type: none"> The process of strategy formulation is the topic of the audit. Such an audit can both focus on the process and/or the content of the strategy. 	<ul style="list-style-type: none"> Many organizations have a business unit structure, in which a holding applies a group strategy and each individual business unit operates under its own decentralized strategy. An audit could focus specifically on the BU-strategy formulation. As for the 'strategy formulation process audit' such an audit could both focus on the process and/or the strategy content. 	<ul style="list-style-type: none"> An internal audit that focuses on the strategy implementation process. This deals with translating the strategy into objectives and performance measures as well as implementing these into operational plans. 	<ul style="list-style-type: none"> An internal audit on strategy implementation or execution that takes place via programs or projects and that focus on the strategy's building blocks. This is the case when programs and projects are a direct result of the formulated strategy (implementation), depending on how important the relevant program or project is for achieving the goals of the organization. 	<ul style="list-style-type: none"> This type of internal audit focuses on the third part of the strategy process, the strategy evaluation. Such an audit can be the evaluation of the strategy itself or focus on the strategy evaluation that has already taken place in the organization.
Audit object	<ul style="list-style-type: none"> The process of strategy formulation and/or the content of the strategy. 	<ul style="list-style-type: none"> The process of strategy formulation and/or the content of the strategy of a decentralized organizational entity. 	<ul style="list-style-type: none"> The strategy implementation or execution. 	<ul style="list-style-type: none"> Programs or projects aimed at strategy drivers. 	<ul style="list-style-type: none"> The strategy evaluation conducted within the organization; or The strategy formulation and implementation/execution (assessed afterwards).
Examples	<ul style="list-style-type: none"> The internal audit function is requested by the Board to walk along during the strategy formulation process that should lead to a new 5-year strategy and as part of that verifies 	<ul style="list-style-type: none"> The group internal auditors are requested by the Board to perform an audit on the strategy of business unit Y. One of the checks is the alignment with the group strategy. 	<ul style="list-style-type: none"> Internal audit assesses the implementation of a HR, ICT strategy or the company-wide roll-out of operational excellence. 	<ul style="list-style-type: none"> Disentanglements or cost-saving programs or the roll out of new infrastructure by a telecommunications company (e.g. 4G network). 	<ul style="list-style-type: none"> A merger of two companies was followed by a de-merger shortly after. Internal audit was requested to perform an audit to evaluate the decision to merge both companies

	V Strategy formulation process auditing	VI Auditing of decentralized strategies	VII Strategy implementation auditing	VIII Strategy process program auditing	IX Strategy evaluation and control auditing
	underlying analysis and assumptions therein.				and to derive lesson's learned from that.
Methodology (tools and techniques)	<ul style="list-style-type: none"> In-depth strategy subject matter expertise and sector knowledge is included in the approach and team. 	<ul style="list-style-type: none"> Identical to strategy formulation. 	<ul style="list-style-type: none"> Regular internal audit methodology eventually combined with thorough strategy knowledge. 	<ul style="list-style-type: none"> Program/project audit methodology. 	<ul style="list-style-type: none"> Regular internal audit methodology.
Capabilities (knowledge, experience, seniority and reputation)	<ul style="list-style-type: none"> Depending on whether such an audit only focuses on the formulation process or the content of the strategy as well, in-depth knowledge of strategy and the business is required. Also internal auditors should be senior to be a sparring partner for senior management. 	<ul style="list-style-type: none"> Identical to strategy formulation. 	<ul style="list-style-type: none"> The required competencies for this type of audit are most debated. Some see it as more or less a regular audit, maybe requiring some more experience and seniority, while others believe this is whole different ball game, requiring strategy knowledge as well. 	<ul style="list-style-type: none"> Both knowledge of and experience with program or project auditing is required as well as a good understanding of strategy and its execution. 	<ul style="list-style-type: none"> Regular internal audit knowledge with more than average experience is required, as well as seniority.
Advantages	<ul style="list-style-type: none"> Relevance and importance of the strategy formulation process for the organization. 	<ul style="list-style-type: none"> Identical to strategy formulation. 	<ul style="list-style-type: none"> Many organizations acknowledge to fail in the execution of their plans. Plans are only as good as their execution. There-with this topic can be of great added value to the organization. Depending on how the audit is conducted timely information can be provided to management to steer. 	<ul style="list-style-type: none"> Program and project auditing is not new, but already applied by many internal audit functions. Strategic process programs project are the direct execution of the organizational strategy. Therefore the advantages are similar as for strategy implementation. 	<ul style="list-style-type: none"> Strategy evaluation closes the loop of the strategy process. Strategy evaluation by means of an internal audit could provide valuable input for the new strategy formulation process and contribute to an organization's collective learning.
Risks	<ul style="list-style-type: none"> Limited relevance, due to solid strategy formulation process. Impaired independence. Creating a false sense of assurance. 	<ul style="list-style-type: none"> The same risks apply as for an audit on strategy formulation process, but to a lesser degree. The two main differences are that the audit is initiated at a board-level while the audit focusses on the strategy of local management. Therefore the risk of impaired independence is less. Secondly, there are more anchor points to assess the strategy, mainly by verifying alignment with central organizational strategy. 	<ul style="list-style-type: none"> Some believe that an internal audit on the strategy implementation or execution still requires a high level of knowledge on the subject of strategy, which is believed to be often absent with internal audit functions. Another mentioned risk is that an internal audit on a running target would provide insufficient tools for making corrections and would put a too big burden of those responsible for executing the strategy. 	<ul style="list-style-type: none"> The risks for this type of audit are basically identical as for an audit on strategy implementation. 	<ul style="list-style-type: none"> Limited relevance. Many organizations are forward looking by nature and rather focus on the developments ahead than where they went wrong in the past and what could be learned from that. Most organizations don't evaluate strategy explicitly. Further, it could bring internal audit in a position that it has to confront management with mistakes.
Way forward	<ul style="list-style-type: none"> We have seen that the demand for this type of audit is limited and that internal audit is often believed not to be appropriate party to assess the organizational strategy. 	<ul style="list-style-type: none"> Identical to strategy formulation. 	<ul style="list-style-type: none"> Strategy implementation is a terrain in which internal audit is believed to be of great value, without requiring extraordinary knowledge of strategy. Further guidance for this type of audit is welcomed. 	<ul style="list-style-type: none"> Unclear whether the impact on the strategy is always assessed a criterion to prioritize programs and projects for a future audit. 	<ul style="list-style-type: none"> Internal audit can either assess the strategy evaluation already conducted within the organization or perform the strategy evaluation itself by means of an audit.

	V Strategy formulation process auditing	VI Auditing of decentralized strategies	VII Strategy implementation auditing	VIII Strategy process program auditing	IX Strategy evaluation and control auditing
	<ul style="list-style-type: none"> • A good practice is when internal audits shares its believes on a new organizational strategy by other means than a formal audit report. • In case the content of the strategy is (also) included in the audit the presence of in-depth strategy and sector subject matter expertise is inevitable. 				<p>Therewith internal audit can contribute to organizational learning. However, we have seen that the demand for this type of audit is limited.</p>

II Example of reference model

An example of a reference model, developed and used by a Dutch financial services company for the audit of a strategy process:

Strategy phase(s)	Key risk areas	Key research questions
A. Determine: Align business objectives with corporate mission	Strategy formulation Leadership Ownership Risk identification Communication	<ol style="list-style-type: none"> 1 Is the strategy aligned with the corporate strategy? 2 Has the strategy been determined based on appropriate and sufficiently substantiated analyses, including scenario planning and testing? 3 Have all relevant (internal and external) stakeholders effectively been involved in determining the strategy?
B. Translate: Strategy into plans	Leadership Ownership Resources Risk identification Communication	<ol style="list-style-type: none"> 1 Is the strategy consistently translated into SMART (Specific, Measurable, Achievable, Relevant and Time-bound) objectives and related action plans? 2 Has ownership for the various action plans been appropriately assigned?
C. Execute: Realize plan	Leadership Ownership Resources Risk identification Communication	<ol style="list-style-type: none"> 1 Is the introduction and execution of the strategy supported by effective communication and change processes? Are resources and action plans aligned and prioritized in line with the strategic objectives? 2
D. Evaluate: Review and adjust	Communication Monitoring	<ol style="list-style-type: none"> 1 Is the progress of strategy execution effectively measured against defined (SMART) objectives? 2 Are the strategic choices periodically reviewed (e.g., self-questioning, lessons learned)? 3 Is the organization able to adapt its strategy to relevant internal or external factors (e.g., new corporate strategy)? 4 Is the strategy life cycle process periodically evaluated?

III The research project

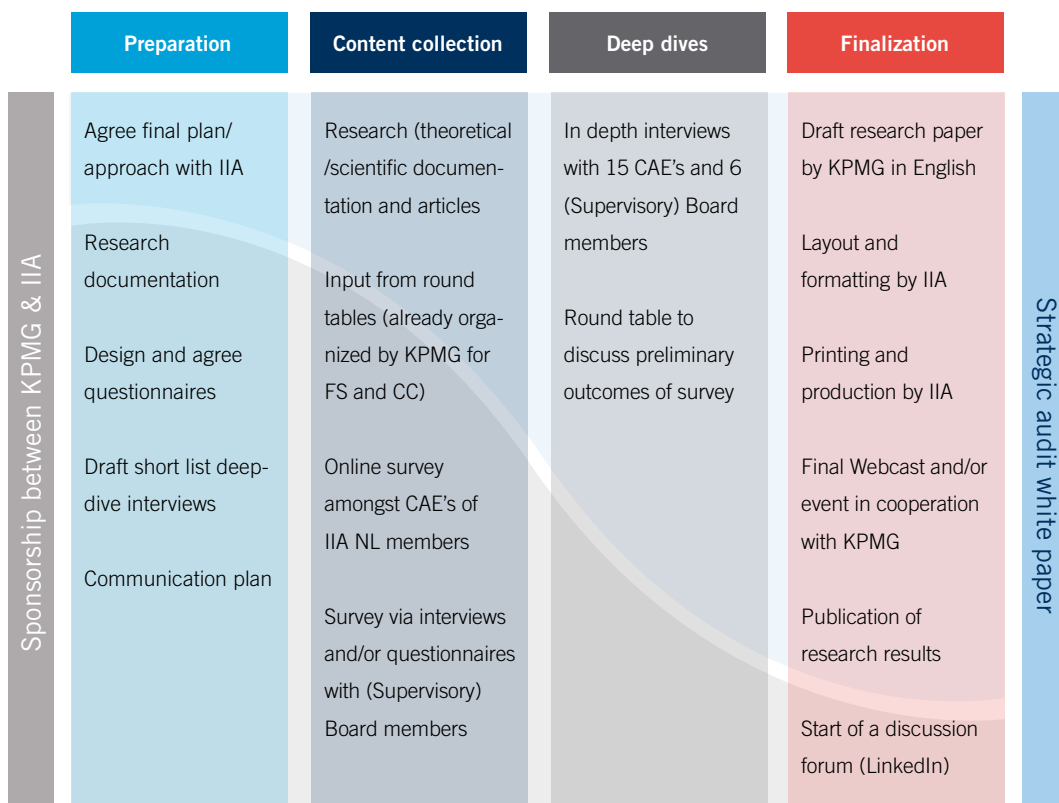
The Institute of Internal Auditors (IIA) and KPMG Advisory together prepared this discussion paper on the role of the IAFs with respect to strategy-related audits. The research project aimed to investigate:

- How IAFs deal with strategy-related audits;
- If (executive and non-executive) Board Members recognize the added value of a more active role played by the IAF in the strategic management process;
- The required capabilities of IAFs to include strategy in Internal Audit's scope;

The research project consisted of the following:

- Documentation and desk research;
- A questionnaire-based survey conducted across 34 CAEs (or equivalent) of Dutch (based) companies;
- 21 personal interviews with CAEs, Board Members (both executive and non-executive); and
- Several round table discussions with CAEs.

The research has led to the publication of this discussion paper, which can also be considered a good starting point for further discussion within our profession.



IV References

This section presents a selective list of the literature used for this discussion paper.

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V Glossary

Strategy-related audit	Strategic risk audit and/or strategy process audit.
Strategic risk audit	An assessment that focuses on risks that result from the pursuit of certain strategically important organizational goals.
Strategy process audit	An assessment that either focuses on the strategic management process or (the content of) the formulated strategy itself. A strategy process audit directed towards the strategic management process can apply to one or more phases of strategy development which form a continuous cyclical process: strategy formulation, implementation, and evaluation and control.
Internal audit	An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.