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Internal audit performance measurement

Chartered Institute of Internal Auditors

Why do we need to measure performance in internal audit?

The requirement to measure the performance of internal audit is defined by two fundamental considerations: firstly and most importantly the need to demonstrate to the organisation's that we work in, that we deliver services that are of value to them; secondly the Standards say we should.

Demonstrating value

Internal audit services cost money. Organisations take a decision to invest in internal audit; sometimes the decision is optional sometimes it is a mandatory requirement in the sector in which the organisation sits e.g. banking. Internal audit needs to be able to demonstrate that the services provided, or activity we undertake, is of value to the organisation.

Value can be expressed in many ways, but for internal audit it is perhaps convenient to think of it in the terms expressed in the Mission Statement contained in the IPPF: To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

An approach for considering what valuable internal audit might look like is when your stakeholders recognise that you provide assurance, advice and insight:

- on the right things
- on enough of the right things
- to the right people at the right time
- to a standard such that they know that the assurances you provide can always be trusted and relied upon
- in a way that positively engages them
- that leads to valued and impactful improvements in governance, risk management and internal control
- that results in them treating you as a trusted, authoritative and impartial partner.

So, what do the Standards say?

Attribute Standard 1110 – Organisational Independence

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board: Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters.

Attribute Standard 1311 – Internal Assessments

Internal assessments must include: Ongoing monitoring of the performance of the internal audit activity.

Performance Standard 2060 – Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards.

[Read more about the Standards](#)

Considerations

Much has already been written about performance measurement, and performance measurement in internal audit. Some links are provided below but these are by no means comprehensive. What follows is not an academic paper rather it is a practitioner's view based on experience.

First some things to avoid

1. Don't expect to find a "holy grail", that one thing that if you measure it will tell you exactly how valuable you are. Such a thing has yet to be found. However, all great quests are a journey, so maybe one day...
2. Don't measure it just because you can. We can all collect lots of data about auditing activity and data makes measurement easy and so possibly attractive to do. It can also lead to lots of spurious data that tells you little about your actual performance and wastes time.
3. Don't think that all measures need to be quantitative. Words can be more powerful than numbers when thinking about performance. Value is a relative concept so what your stakeholders say is really important, make sure you listen. Qualitative performance measurement needs to happen all the time not just at the end of an audit, month, period, year etc.
4. Don't have too many measures – if you have more than ten you probably have too many. It is important to ensure that you measure the right things to help you achieve your purpose, as the saying goes, "what gets measured gets managed", but equally more measures does not mean better performance.
5. Don't make an industry out of the process of measuring performance. It is important to do it, but every hour you spend on measuring performance is an hour less you can spend actually auditing.
6. Don't let the measures be the story. The measures you have hopefully tell you something about your performance but they won't tell you everything, there is always a story behind the measures that needs to be told.
7. Don't be afraid of reporting "bad" performance. Notwithstanding that we have a code of ethics to uphold, we should tell it as it is, good, bad or indifferent.

Now some things to do

1. Be clear on why you want to measure performance. This is obvious but, having clarity on this helps in selecting what measures you might need or want. Some suggested reasons why you might want to measure performance are:
 - Aligning operational activity with strategy
 - Manage service delivery risk and control operations

- Stakeholder communication and management
 - To maintain and drive improvements in quality
 - Staff motivation and reward
 - Support accountability and demonstrate value
 - Demonstrate compliance with standards
2. Find out what you key stakeholders want or expect – it is they who determine whether what we do is of value. This will be an opportunity to have a meaningful discussion with your stakeholders about what they really want; it will equally be an opportunity to educate them about what internal audit is really about.
 3. Design or select some measures that will tell you something about performance relative to the objectives you are trying to achieve. Performance measures can on the face of it be easy to select, but it is worth spending a little time scrutinising each one using the following design tests.

No.	Test name	Test description
1	Truth	Are you really measuring what you set out to measure?
2	Focus	Are you only measuring what you set out to measure?
3	Relevance	Are you definitely measuring the right thing?
4	Consistency	Will the data always be collected in the same way whoever measures it?
5	Access	Is it easy to locate and capture the data needed to make the measurement?
6	Clarity	Is any ambiguity possible in interpreting the results?
7	So-what?	Can and will the (reported) data be acted upon?
8	Timeliness	Can the data be accessed rapidly and frequently enough for action?
9	Cost	Is the measure worth the cost of measurement (time/money)?
10	Gaming	Is the measure likely to encourage undesirable or inappropriate behaviours?

Neely, A.D. Adams, C. Kennerley, M. (2002) *The Performance Prism The Scorecard for Measuring and Managing Business Success*. London: Prentice Hall.

4. Consider whether you just want to measure something (passively) over time, or will it be used as the basis of a target? Measures that become targets merit additional attention using the ten tests above, the So-what, and Gaming tests are worth giving extra thought to before you decide to use them as targets. Consider also whether the measures you select for targets are capable of sub-division, ideally you want to ensure that all the team contribute coherently to the achievement of your objectives and cascading targets through staff appraisals (or equivalent processes) is a good way of achieving this.
5. Decide/clarify if you are dealing with measures of performance, or indicators of performance.

Measures reflect things that you can directly control and can be accountable for, for example productivity; indicators can say something about internal audit performance but they will be either partially or wholly outside of your control, for example management's implementation of agree actions. Targets can be set for both measures and indicators, but the need to report actively (see point 8 below) when indicators are used for targets is essential.

6. Keep the portfolio of measures you use under review. Whilst it is good to maintain some core measures over a period of time so that trends can be observed and reviewed, it is also good to ensure that your measures remain fit for purpose. Your stakeholders and their needs might change; you might introduce new processes/technologies; your strategy might change; the culture of your organisation might change. All of these may impact on what measures are appropriate for your needs.
7. Decide how, to whom and how frequently you will report the performance data. What the head of internal audit might need to control operations will be substantively different from what your audit committee or regulator might need. It is important that you report the right data to the right people in the right way. Don't put everything into one "performance report" and expect the recipient to pick out the pieces they are interested in.
8. Report actively. Don't just send a report and hope that the recipient gets the right message(s). You need to engage with the recipient to ensure that your performance is interpreted correctly, you need to tell the story that the performance data illustrates. Just as importantly you need to be there to hear and learn from what the recipient thinks about your performance. Performance measures are just one of many components that contribute to building and maintaining trust with stakeholders; and earning trust will significantly influence stakeholders' perception of value.

So what measures or indicators might you use?

There are many, and this guide will not tell you which ones to use. It is for each audit team to decide what is needed in their circumstances. However the following is a list of some that are commonly in use – they are not comprehensive, or recommended, and other such lists are available.

Category	Measures	AC regular report	AC annual report	HIA performance appraisal	Other regular
Audit committee attendance	IA attendance at AC meetings		X		
Customer satisfaction results	Scores from customer satisfaction q'aires	X			
Customer satisfaction results	Customer satisfaction, by audit and formal feedback from CX and AC Chair		X	X	
Delivery/annual report	AC acceptance of annual opinion/report			X	
Delivery/other	Numbers of investigations/advisory	X	X	X	

	inputs				
Delivery/plan	%age completion of agreed plan	X	X	X	
Delivery/recommendations	%age reduction in risk exposure achieved	X	X		
Delivery/recommendations	Recommendations made/accepted analysed by priority	X	X	X	X
Delivery/recommendations	Implementation of agreed actions	X	X	X	X
Productivity/efficiency/follow-up	Issue of final report to follow-up		X		
Productivity/efficiency/reporting	Issue of draft report following completion of fieldwork		X		
Productivity/efficiency/reporting	Issue of draft report to receipt of management responses		X		
Quality/improvements	Number of service improvements identified and implemented		X	X	
Quality/relationships	Relationships with AC Chair/CX/Senior			X	
Quality/staff	%age audit work delivered by qualified staff		X		
Quality/standards	Quality review outcomes - EQA or Other		X	X	X
Resources/costs	Manage the costs of team within agreed budget			X	
Resources/costs	%age direct audit and cost per direct day benchmarked		X	X	
Targeting	Approval of strategy and work plan			X	
Targeting	%age of risks over which assurance provided	X	X		

Further reading

International standards

1110 Organisational independence
1311 Internal assessments
2060 Reporting to senior management

Implementation guidance

1110 Organisational independence
1311 Internal assessments
2060 Reporting to senior management

Supplemental guidance

Measuring internal audit effectiveness and efficiency

Audit & Risk

Five tips: How to measure the value of your internal audit department

External resources

PwC – Metrics by design: A practical approach to measuring internal audit performance