

# Internal Audit Capability Model (IA-CM)

*For the Public Sector*



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ISBN 978-0-89413-675-7

09/09

First Printing

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# FOREWORD

This report reflects the results of the research conducted to develop and validate the Internal Audit Capability Model (IA-CM) for the Public Sector. The IA-CM is a framework that identifies the fundamentals needed for effective internal auditing in government and the broader public sector. It illustrates the levels and stages through which an internal audit (IA) activity can evolve as it defines, implements, measures, controls, and improves its processes and practices.

The model is intended for self-assessment, capacity building, and advocacy. Its primary users are expected to be internal audit professionals together with the profession's principal stakeholders (e.g., senior management, audit committee members, governing bodies, and external auditors).

This research report comprises two sections — an Overview of the IA-CM and an Application Guide:

- The Overview provides background on the research project itself, some environmental and contextual information about internal auditing, and a description of the model, including its underlying principles and structure. A selected bibliography is also provided.
- The Application Guide describes the IA-CM in detail — its elements, levels, key process areas, and how to use and interpret the model. Some evolving and best-practice examples of IA activities identified during the global validation of the IA-CM are highlighted along with guidance to help use the IA-CM as a self-assessment tool.

The model is not intended to be prescriptive in terms of how a process should be carried out, but rather what should be done. It is intended as a universal model with comparability around principles, practices, and processes that can be applied globally to improve the effectiveness of internal auditing.

# ACKNOWLEDGMENTS

The Institute of Internal Auditors Research Foundation (IIARF) wishes to express its appreciation to all those who participated in the development and validation of the Public Sector IA-CM, including:

- The Internal Auditing Department of the World Bank for its financial support and technical expertise working with the research team to validate the IA-CM globally.
- The IA activities and others, identified in Exhibits A.1 and A.2, that participated during the global validations of the IA-CM and particularly the two IA activities that piloted the on-site validations outside and within North America — the Internal Audit Service of the Ministry of Finance in the Republic of Croatia and the Chief Auditor’s Office of the Texas Commission on Environmental Quality in Austin, Texas, USA.
- Elizabeth (Libby) MacRae, CGAP, lead researcher and principal author, for her dedication, unrelenting energy, and commitment to the profession of internal auditing.
- The volunteer internal audit professionals on the IA-CM review team:
  - o Brian Aiken, CIA, CFE, Assistant Comptroller General, Treasury Board Secretariat, Canada
  - o Jacques Lapointe, CA, CIA, CGAP, Auditor General of Nova Scotia, Canada
  - o Bruce Sloan, CA, Senior Principal, Office of the Auditor General of Canada
  - o Colleen Waring, CIA, CGAP, former Deputy City Auditor, City of Austin, Texas, USA
- The following institutes and committees for helping coordinate the IA-CM validations during 2008: IIA-Argentina, IIA-Australia, IIA-Croatia, IIA-Egypt, IIA-France, IIA-Kenya, IIA-Malaysia, IIA-Tanzania, IIA-United Kingdom, IIA-Uganda, The IIARF’s Board of Research and Education Advisors (BREA), and The Institute of Internal Auditors’ (IIA) Public Sector Committee (PSC) (formerly, Government Relations Committee).
- Carnegie Mellon University and its Software Engineering Institute for providing permission to use its CMMI® for Development , Version 1.2 as the basis, in part, for the structure of this model.



# I. OVERVIEW

## 1. Introduction

The Overview provides a high-level summary of the Internal Audit Capability Model (IA-CM) for the Public Sector. It includes background on the research project itself, some environmental and contextual information about internal auditing, and a description of the model, including its underlying principles and structure. A selected bibliography and resource links is also provided.

### 1.1 Background

In 2004, the Public Sector Committee (PSC) recommended that an IA-CM be developed to reinforce the importance of internal auditing in public sector governance and accountability. It recognized that internal auditing could vary significantly from country to country because of differences in management practices, processes, and culture of a particular government. The PSC identified the need for a universal model that public sector IA activities could use as a self-assessment and development tool to assess their progress and determine training and capacity-building needs.

At that same time, governments at all levels — national, regional (provincial or state), and local (county or city) — were acknowledging the critical importance of internal auditing in enhancing the economy, efficiency, and effectiveness of all levels of public sector administration. There was clearly a need for a universal public sector governance model that included internal auditing.

In September 2006, The Institute of Internal Auditors Research Foundation (IIARF) approved the project to develop an IA-CM to be used globally to help evolve public sector internal auditing by strengthening its capacity and improving its effectiveness. The model is based on an adaptation of the Software Engineering Institute's Software Capability Maturity Model<sup>®</sup> that was developed as a tool for assessing an organization's ability to build software applications and the more recent Technical Report, "CMMI<sup>®</sup> for Development, Version 1.2."<sup>1</sup>

The IA-CM is a framework that identifies the fundamentals needed for effective internal auditing in the public sector and consists of five levels, tied to leading practices. In addition to its use as a self assessment and continuous improvement model for IA activities, the IA-CM could be used by senior management and legislators to evaluate the need for and the type of IA activity appropriate to their organizations or jurisdictions.

Governments at all levels acknowledge the critical importance of internal auditing in enhancing the economy, efficiency, and effectiveness of all levels of public administration.

A universal public sector governance model was needed that reinforced the importance of internal auditing.

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<sup>1</sup>CMMI<sup>®</sup> is a registered trademark of Carnegie Mellon University.

This model could also be used by national, regional, and local legislative auditors as a source of benchmarks. They could report to legislators on the extent to which any given public sector IA activity has reached maturity in terms of governance, policy and practices framework, organization and structure, resources, and services.

## **1.2 Research Purpose, Scope, and Approach**

The IA-CM was designed to implement and institutionalize effective internal auditing in the public sector.

The ultimate purpose of the research project was to develop an IA-CM to use globally as a basis for implementing and institutionalizing effective internal auditing in the public sector. The primary lines of enquiry were intended to explore and identify:

- The overall characteristics at each capability level for the IA activity and the organization that it supports.
- The elements that make up the IA activity and the key process areas at each capability level and within each element.
- The activities and practices of each key process area that need to function effectively and the corresponding purpose that needs to be achieved to move to the next level.

The project was composed of two phases. The first phase took place from October 2006 to April 2007 and the second from November 2007 to May 2009.

Phase 1 identified the characteristics at each level, the elements of the IA activity, and the key process areas (KPAs) at each level and for each element. An extensive literature and documentation review was conducted along with input through focus groups and workshops from over 50 internal audit professionals from over 20 countries.

Phase 2 built on the results of Phase 1 by refining and elaborating on the five levels of capability, further distinguishing them, and evaluating aspects of each level that contributed to the capability for implementing the next level. The essential activities, outputs, outcomes, and means to institutionalize the KPAs were developed.

Phase 2 confirmed the appropriateness of each level and the KPAs within the internal audit elements by:

- Identifying real-life IA activities that exemplified each level, and comparing across the elements to ensure that the examples were truly representative of the model; and
- Validating, through extensive interaction and communication with IA activities world-wide, that the essential activities, outputs and outcomes identified in the KPAs within each element at each level constituted the basis and provided the capability for functioning effectively, and that they established the foundational (or systemic) capacity to move on to the next level.

The research team felt that global validation was critical to the usability and acceptance of the model. The Internal Auditing Department of the World Bank worked with The IIARF to ensure sufficient global validation — considering different forms of government, stages of government’s maturity, and cultures of countries and continents. A detailed validation plan was developed to identify public sector IA activities at each of the capability levels at different locations around the world.

Global validation was critical to the model’s sustainability and acceptance.

Extensive consultation and interaction took place with internal audit professionals, key stakeholders, and communities of interest, including senior management, audit committee members, and Supreme Audit Institutions as well as relevant service providers. The model was validated and refined to ensure that it was useable, useful, practical, and relevant for public sector IA activities.

Extensive consultation took place with internal audit professionals and stakeholders worldwide.

A detailed report on the results of each on-site validation (which included evolving/best-practice examples, suggestions for improving the IA activity, and refinements to the IA-CM) was provided to validation participants. Some of the evolving and best-practice examples are highlighted in this report.

Sixteen IA activities in public sector environments worldwide participated in on-site IA-CM validation sessions. Presentations and workshops were also held to obtain additional input. More than 300 people from over 30 countries were consulted during Phase 2. In addition, input was sought from various local internal audit institutes and The IIA’s international committees, particularly the PSC. Annex A in the Application Guide provides more details on the Phase 2 validation methodology, its participants, and the evolving/best-practice examples identified during the on-site validations.

## 2. Internal Auditing and the Environment

This section sets the context for the research project by providing some commonly accepted definitional and contextual information relating to internal auditing. It also introduces some environmental and organizational factors that may impact on the capacity and evolution of an IA activity. These will be expanded on in the Application Guide.

### 2.1 Definition

The IIA developed the globally accepted Definition of Internal Auditing:

“Internal auditing is 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.”

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.”

Internal auditing is performed by professionals with an in-depth understanding of the organization's business culture, systems, and processes. Internal auditors are expected to follow The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* and adhere to its Code of Ethics.

“The operation of the IAA [IA activity] is complex and demanding. The CAE [Chief Audit Executive] must manage both internal and external relationships, the administration and organization of the activity, the plan and functioning of the audits performed, and resolve any issues that may arise.”<sup>2</sup>

“To be perceived to add value, the IAA must strategically align the needs and priorities of all its key stakeholders, including the AC [audit committee], executive management, and external auditors.”<sup>3</sup>

The IA activity works collaboratively with management and the oversight body to provide assurance that governance processes are effective and efficient, internal controls are adequate to mitigate the organization's risks, and organizational goals and objectives are met.

## 2.2 Environment

Public sector internal audit environments differ around the world.

Internal auditing is a global profession and is practiced in both the public and private sector. As such, it is performed in various environments and within organizations that differ in purpose, size, and structure. Further, laws and customs vary around the world. Such differences impact on the practice of internal auditing.

In determining the most appropriate IA activity for an organization in the public sector, it is important to consider the influence that corporate governance structures, risk management, and control frameworks have on the ability to implement internal auditing and develop the necessary internal audit capabilities.

The reality that management capacity, infrastructure, and governance arrangements are different in developed and developing countries must also be considered. Furthermore, when introducing measures to strengthen internal auditing in developing and transitional countries, it is necessary to understand different audit traditions and institutional capacities.

It is important to look at the receptiveness of a particular country to financial management reforms. Factors to be considered include government stability and culture, appetite for reform, the legislative system, the maturity of corporate governance, the tradition and practices of external audit, and whether there are central drivers for internal auditing.

In this respect, it is important to note the established authority and role of the Supreme Audit Institution in a particular country, its professional practices, and its relationship with internal auditing — whether it is seen as complementary to internal auditing or has assumed internal audit's role.

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<sup>2</sup> *A Global Summary of the Common Body of Knowledge 2006* (Altamonte Springs, FL: The Institute of Internal Auditors Research Foundation, 2007), p. 239.

<sup>3</sup> *Ibid*, p. 376.

There may be real capacity constraints that impact on implementing internal auditing in a particular environment or restrict the IA activity to a less evolved capability level. In some developing and transitional countries, it may not be possible to generally conform to the *Standards* in view of environmental and political factors. For example, if the environment has not fully embraced organizational and individual accountability for results, it may be difficult for internal auditing to progress beyond Levels 1 or 2.

### 3. The IA-CM for the Public Sector in Summary

#### 3.1 What is the IA-CM for the Public Sector?

The IA-CM is a framework that identifies the fundamentals needed for effective internal auditing in the public sector. It describes an evolutionary path for a public sector organization to follow in developing effective internal auditing to meet the organization's governance needs and professional expectations. The IA-CM shows the steps in progressing from a level of internal auditing typical of a less established organization to the strong, effective, internal audit capabilities generally associated with a more mature and complex organization.

The IA-CM identifies the fundamentals for effective internal auditing in the public sector.

The IA-CM is:

- **A communication vehicle** — a basis for communicating what is meant by effective internal auditing and how it serves an organization and its stakeholders, and for advocating the importance of internal auditing to decision makers.
- **A framework for assessment** — a framework for assessing the capabilities of an IA activity against professional internal audit standards and practices, either as a self-assessment or an external assessment.
- **A road map for orderly improvement** — a road map for building capability that sets out the steps an organization can follow to establish and strengthen its IA activity.

The IA-CM provides a **tool** that a public sector organization can use to:

- Determine its internal audit requirements according to the nature, complexity, and associated risks of its operations.
- Assess its existing internal audit capabilities against the requirements it has determined.
- Identify any significant gaps between those requirements and its existing internal audit capabilities and work toward developing the appropriate level of internal audit capability.

Three variables impact on internal auditing's capability — the IA activity itself, the organization, and the environment.

A number of **principles** underlie the IA-CM:

- Internal auditing is an integral component of effective governance in the public sector and helps organizations achieve their objectives and account for their results.
- Three variables must be considered when assessing the level of capability of an IA activity — the activity itself, the organization, and the overall environment in which the organization operates.
- An organization has an obligation to determine the optimum level of internal audit capability to support its governance needs and to achieve and maintain the desired capability.
- Not every organization requires the same internal audit capability or sophistication. The appropriate level will be commensurate with the nature and complexity of the organization and the risks to which the organization may be exposed. “No one size fits all.”
- The capability of the IA activity is directly related to the actions taken by the Chief Audit Executive (CAE) to establish the processes and practices needed to achieve and maintain the internal audit capabilities and the measures taken by the organization's management to establish a supportive environment for internal auditing.
- Internal auditing must be delivered in a cost-effective manner.

The IA-CM is a framework for strengthening or enhancing internal auditing through many small evolutionary steps.

The IA-CM is intended as a **universal model** with comparability around principles, practices, and processes that can be applied globally to improve the effectiveness of internal auditing.

### **3.2 The Structure of the IA-CM**

The IA-CM is a framework for strengthening or enhancing internal auditing through many small evolutionary steps. These steps have been organized into five progressive capability levels. The model illustrates the stages through which an IA activity can evolve as it defines, implements, measures, controls, and improves its processes and practices.

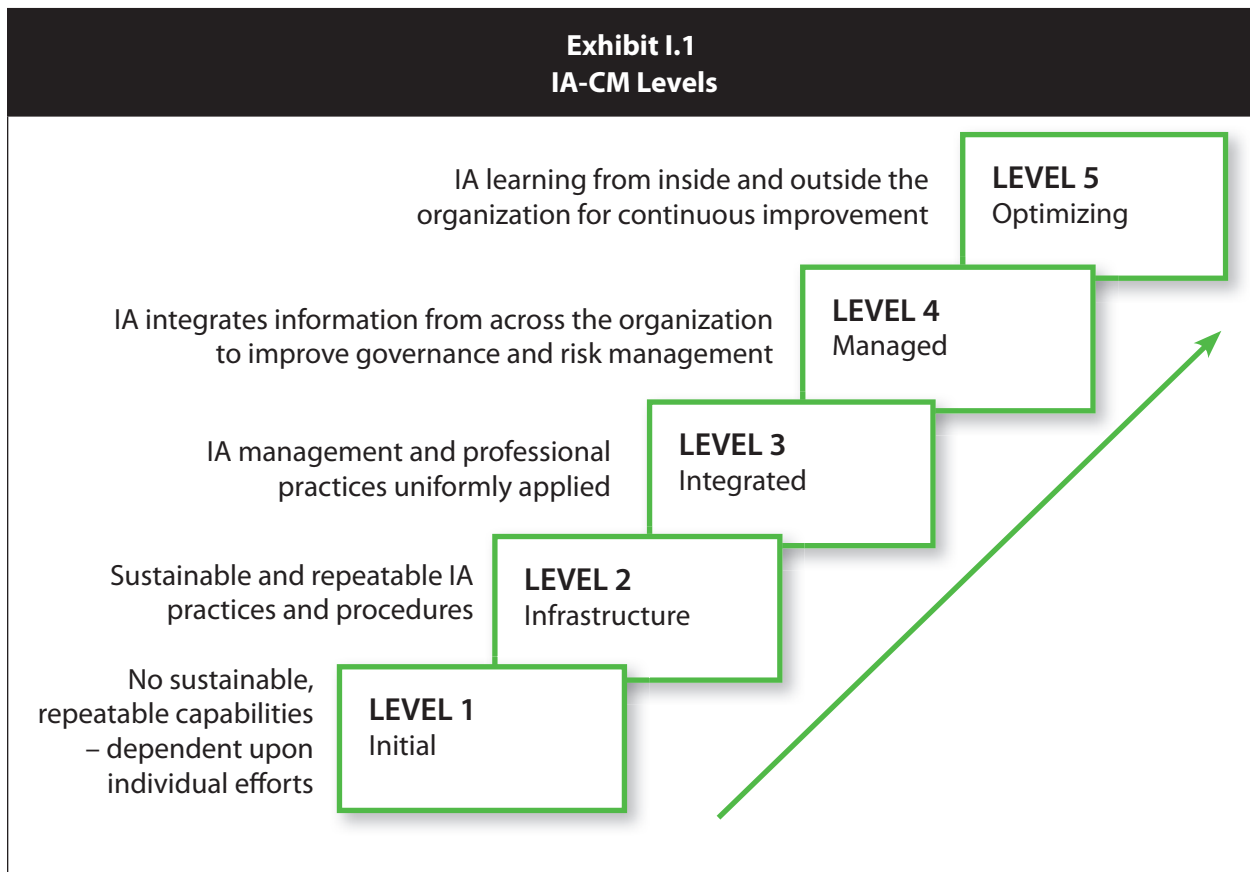
The IA-CM provides a road map for continuous improvement.

Improvements in processes and practices at each stage provide the foundation on which to progress to the next capability level. Hence, it is a “building block” approach to establishing effective internal auditing in an organization. A fundamental premise underlying the IA-CM is that a process or practice cannot be improved if it cannot be repeated.

### 3.2.1 Capability Levels

The five levels of the IA-CM are:

1. Initial.
2. Infrastructure.
3. Integrated.
4. Managed.
5. Optimizing.



Each capability level describes the characteristics and capabilities of an IA activity at that level. As either the size or complexity of an organization or the risks associated with its operations increases, so does the need for more sophisticated internal audit capabilities. The model attempts to match the nature and complexity of an organization with the internal audit capabilities needed to support it. In other words, if the organization requires a greater degree of sophistication in internal audit practices, the IA activity will typically be at a higher capability level. The internal audit capability level is often tied to the governance structure of the organization within which it is situated.

The IA-CM attempts to match the nature and complexity of the organization with the IA capabilities needed to support it.



The capability levels in the model provide a road map for continuous improvement within the IA activity. However, an IA activity may choose to remain at any level and still represent a best practice at that level for that IA activity in that particular organization and environment.

For example, an IA activity may wish to remain at a particular level and improve the efficiency and quality of implementation of the processes at that level by establishing “better practices,” rather than necessarily striving for and evolving to a higher capability level. Another factor to consider in this respect is the “cost to improve” — to move from Level 2 to Level 3 or from Level 3 to Level 4. In other words, an IA activity may choose to remain at Level 2 or Level 3, and not aspire to a higher capability level because the current level is the most cost effective at that particular time. Summary descriptions of the levels are found in Exhibit I.2.

<b>Exhibit I.2</b> <b>Descriptions of the Capability Levels</b>	
<b>5 – Optimizing</b>	<ul style="list-style-type: none"> <li>– IA is a learning organization with continuous process improvements and innovation.</li> <li>– IA uses information from inside and outside the organization to contribute to achieving strategic objectives.</li> <li>– World-class/recommended/best practice performance.</li> <li>– IA is a critical part of the organization’s governance structure.</li> <li>– Top-level professional and specialized skills.</li> <li>– Individual, unit, and organizational performance measures are fully integrated to drive performance improvements.</li> </ul>
<b>4 – Managed</b>	<ul style="list-style-type: none"> <li>– IA and key stakeholders’ expectations are in alignment.</li> <li>– Performance metrics are in place to measure and monitor IA processes and results.</li> <li>– IA is recognized as delivering significant contributions to the organization.</li> <li>– IA functions as an integral part of the organization’s governance and risk management.</li> <li>– IA is a well-managed business unit.</li> <li>– Risks are measured and managed quantitatively.</li> <li>– Requisite skills and competencies are in place with a capacity for renewal and knowledge sharing (within IA and across the organization).</li> </ul>
<b>3 – Integrated</b>	<ul style="list-style-type: none"> <li>– IA policies, processes, and procedures are defined, documented, and integrated into each other and the organization’s infrastructure.</li> <li>– IA management and professional practices are well established and uniformly applied across the IA activity.</li> <li>– IA is starting to align with the organization’s business and the risks it faces.</li> <li>– IA evolves from conducting only traditional IA to integrating as a team player and providing advice on performance and management of risks.</li> <li>– Focus is on team building and capacity of the IA activity and its independence and objectivity.</li> <li>– Generally conforms to the <i>Standards</i>.</li> </ul>

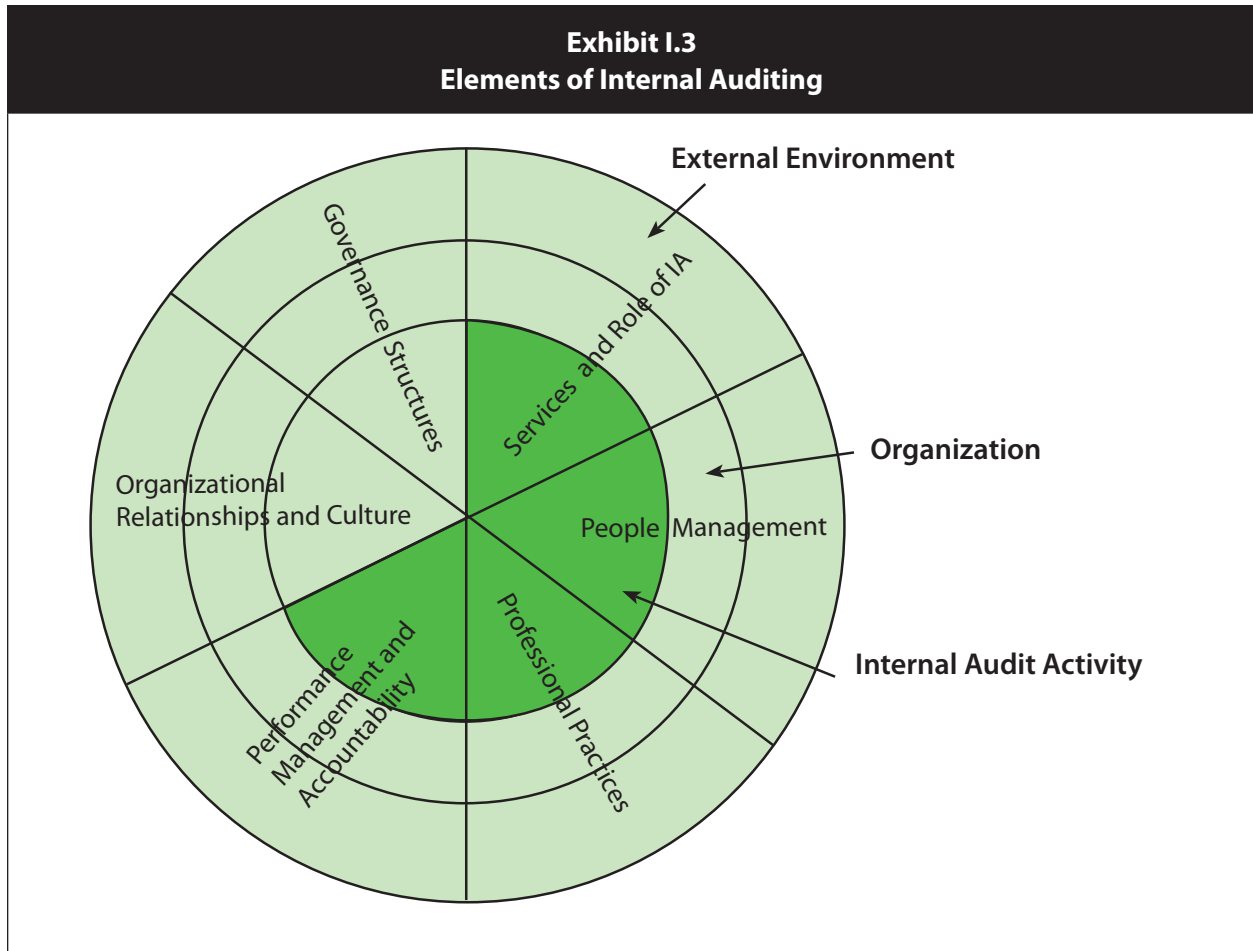


<b>Exhibit I.2 (continued)</b> <b>Descriptions of the Capability Levels</b>	
<b>2 – Infrastructure</b>	<ul style="list-style-type: none"> <li>– Key question or challenge for Level 2 is how to establish and maintain repeatability of processes and thus a repeatable capability.</li> <li>– IA reporting relationships, management and administrative infrastructures, and professional practices and processes are being established (IA guidance, processes, and procedures).</li> <li>– Audit planning based principally on management priorities.</li> <li>– Continued reliance essentially on the skills and competencies of specific persons.</li> <li>– Partial conformance with the <i>Standards</i>.</li> </ul>
<b>1 – Initial</b>	<ul style="list-style-type: none"> <li>– Ad hoc or unstructured.</li> <li>– Isolated single audits or reviews of documents and transactions for accuracy and compliance.</li> <li>– Outputs dependent upon the skills of the specific person holding the position.</li> <li>– No professional practices established other than those provided by professional associations.</li> <li>– Funding approval by management, as needed.</li> <li>– Absence of infrastructure.</li> <li>– Auditors likely part of a larger organizational unit.</li> <li>– Institutional capability is not developed.</li> </ul>

### 3.2.2 *Elements of Internal Auditing*

The following six essential elements were identified for an IA activity:

1. Services and Role of Internal Auditing.
2. People Management.
3. Professional Practices.
4. Performance Management and Accountability.
5. Organizational Relationships and Culture.
6. Governance Structures.



The first four elements — Services and Role of Internal Auditing, People Management, Professional Practices, and Performance Management and Accountability — relate primarily to the management and practices of the IA activity itself. The last two elements — Organizational Relationships and Culture and Governance Structures — also include the IA activity’s relationship with the organization that it supports and the internal and external environments.

Processes, referred to as key process areas (KPAs) in the IA-CM, relate to the six elements and can be found within each capability level. The darker green in Exhibit I.3 identifies the elements where the IA activity may have more opportunity to independently create and institutionalize the KPAs, up to and including those found in Level 3 – Integrated. Summary descriptions of the elements are found in Exhibit I.4.

<b>Exhibit I.4</b> <b>Descriptions of the Elements of Internal Auditing</b>	
<b>Services and Role of Internal Auditing</b>	<p>The role — to provide independent and objective assessments to assist the organization in accomplishing its objectives and improve operations — is found to some degree in most IA activities in the public sector.</p> <p>The means or services provided vary among different jurisdictions and environments.</p> <p>Services provided are typically based on the organization's needs and the IA activity's authority, scope, and capacity.</p> <p>Services include the provision of assurance and advice and can consist of audits of transactions, compliance, systems, processes, operations, performance/value-for-money, information and related technology, and financial statements and systems.</p> <p>Services can be performed by the IA activity itself, co-sourced with external service providers, or outsourced.</p>
<b>People Management</b>	<p>The process of creating a work environment that enables people to perform to the best of their abilities. The process begins when a job is defined as needed.</p> <p>People management includes:</p> <ul style="list-style-type: none"> <li>• Identifying specific attributes and developing clear job descriptions.</li> <li>• Recruiting appropriate people through an appropriate selection process.</li> <li>• Identifying job requirements and work objectives based on performance standards, outcomes, and measures.</li> <li>• Providing effective orientation, continuing education, professional development, and training.</li> <li>• Providing ongoing coaching and continuous feedback.</li> <li>• Designing effective compensation and recognition systems.</li> <li>• Providing appropriate promotional and career development opportunities.</li> </ul>
<b>Professional Practices</b>	<p>Reflects the full backdrop of policies, processes, and practices that enables the IA activity to be performed effectively and with proficiency and due professional care.</p> <p>Refers to the capacity of the IA activity to align itself with the organization's priorities and risk management strategies and contribute to continuous improvement of the IA activity and the organization.</p> <p>Includes the development and maintenance of a quality assurance and improvement program.</p>

<b>Exhibit I.4 (continued)</b> <b>Descriptions of the Elements of Internal Auditing</b>	
<b>Performance Management and Accountability</b>	<p>Refers to the information needed to manage, conduct, and control the operations of the IA activity and account for its performance and results.</p> <p>Refers to the identification and communication of sufficient and relevant information to enable people to perform their assigned responsibilities.</p> <p>Includes the management of relevant information systems and financial and non-financial (operational and program) performance information.</p> <p>Includes the procedures to manage and protect the integrity of data and to produce and present the appropriate information and results when needed.</p> <p>Refers to reporting on the effectiveness of the IA activity to relevant stakeholders and the public.</p>
<b>Organizational Relationships and Culture</b>	<p>Refers to the organizational structure and the internal management and relationships within the IA activity itself.</p> <p>Includes the CAE's relationships with senior management, and as part of the management team.</p> <p>Refers to the IA activity's relationships with other units in the organization, both within the administrative infrastructure and as part of the management regime.</p> <p>Includes how the organization's policies, processes, and practices are interpreted and may impact on the IA activity's capacity to access the information and people needed in the conduct of its work.</p> <p>Refers to the internal relationships and the organization's internal culture and environment, and how these relationships and the organizational culture may impact on key stakeholders and others outside the organization.</p> <p>Refers to relationships with other review groups, including the external auditor or the legislative auditor, if applicable.</p>
<b>Governance Structures</b>	<p>Includes the reporting relationship (administrative and functional) of the CAE, and how the IA activity fits within the organizational and governance structure of the entity.</p> <p>Includes the means by which the independence and objectivity of the IA activity is assured; for example, through its mandate, legislated authority, and/or oversight body such as an audit committee.</p> <p>Refers to the policies and processes established to support and resource the IA activity and thus contribute to its effectiveness and independence.</p>

### 3.2.3 IA-CM One-page Matrix

Exhibit I.5 on the following page presents the IA-CM graphically as a one-page matrix. The vertical axis represents the capability levels — with the capability of the IA activity increasing from bottom to top. The elements of internal auditing are presented on the horizontal axis. The KPAs for each level for each element are identified in the relevant boxes for the appropriate level.

The shading on the IA-CM one-page matrix depicts the extent or influence that the IA activity has over the elements. Specifically, moving from left to right, the ability of the IA activity itself to independently create and institutionalize the KPAs decreases. For example, the IA activity will likely have greater control over its role and services than over its governance structure. Similarly, the IA activity has potentially less ability to independently institutionalize the KPAs as the capability levels move upward on the matrix from Levels 2 to 5. This shift occurs because the organization and the environment will tend to increase their influence over whether the IA activity is able to institutionalize the KPAs at the higher capability levels.

Furthermore, to move from Level 1 to Level 2 requires certain prerequisites in the environment, such as maturing governance structures and financial management, control, and accountability frameworks, along with government stability, a receptive organizational culture, and central drivers for internal auditing.

In summary, the IA activity will likely have more control in creating and institutionalizing the KPAs found in the elements and levels that are darker green.

Exhibit I.5 Internal Audit Capability Model Matrix						
	Services and Role of IA	People Management	Professional Practices	Performance Management and Accountability	Organizational Relationships and Culture	Governance Structures
<b>Level 5 – Optimizing</b>	IA Recognized as Key Agent of Change	Leadership Involvement with Professional Bodies Workforce Projection	Continuous Improvement in Professional Practices Strategic IA Planning	Public Reporting of IA Effectiveness	Effective and Ongoing Relationships	Independence, Power, and Authority of the IA Activity
<b>Level 4 – Managed</b>	Overall Assurance on Governance, Risk Management, and Control	IA Contributes to Management Development IA Activity Supports Professional Bodies Workforce Planning	Audit Strategy Leverages Organization's Management of Risk	Integration of Qualitative and Quantitative Performance Measures	CAE Advises and Influences Top-level Management	Independent Oversight of the IA Activity CAE Reports to Top-level Authority
<b>Level 3 – Integrated</b>	Advisory Services Performance/Value-for-Money Audits	Team Building and Competency Professionally Qualified Staff Workforce Coordination	Quality Management Framework Risk-based Audit Plans	Performance Measures Cost Information IA Management Reports	Coordination with Other Review Groups Integral Component of Management Team	Management Oversight of the IA Activity Funding Mechanisms
<b>Level 2 – Infrastructure</b>	Compliance Auditing	Individual Professional Development Skilled People Identified and Recruited	Professional Practices and Processes Framework Audit Plan Based on Management/Stakeholder Priorities	IA Operating Budget IA Business Plan	Managing within the IA Activity	Full Access to the Organization's Information, Assets, and People Reporting Relationships Established
<b>Level 1 – Initial</b>	Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organizational unit; no established capabilities; therefore, no specific key process areas					

### 3.2.4 What is a Key Process Area (KPA)?

Each capability level consists of one or more KPAs. These are associated with the six elements of internal auditing.

KPAs are the main building blocks that determine the capability of an IA activity. They identify what must be in place and sustained at that capability level before the IA activity can advance to the next level. When an IA activity has institutionalized all of the KPAs associated with a given level of internal audit capability, it may be considered to have achieved that level. In other words, all of the KPAs in each element up to and including that level must be mastered and institutionalized into the culture of the IA activity for internal auditing to achieve a particular level.

KPAs identify what must be in place and sustained.

By definition, KPAs are expressed within an element at a single capability level. There are, however, relationships among the KPAs that stretch across the elements and through the capability levels.

Each KPA consists of a purpose, essential activities, outputs, outcomes, and institutionalizing practices.

**Purpose:** The purpose of a KPA summarizes the intended outcome or state that must exist for that KPA. The state must be implemented in an effective and lasting way. The extent to which the purpose has been accomplished is an indicator of how much capability the IA activity has established at that capability level. The purpose signifies the scope and intent of each KPA.

**Essential Activities:** Each KPA identifies a group of related activities that, when performed collectively, achieve the purpose. In turn, these activities produce outputs and outcomes.

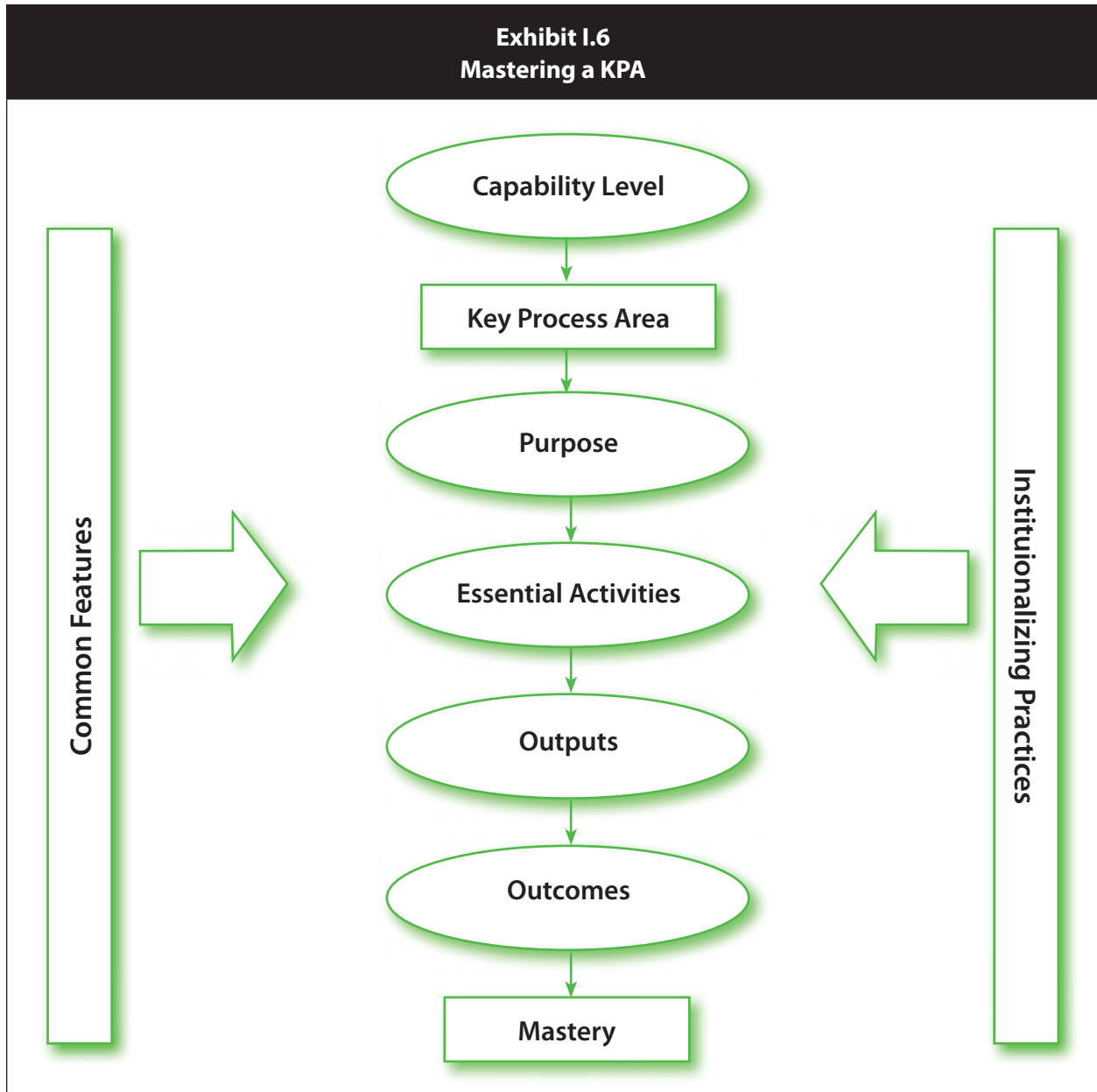
**Outputs and Outcomes:** Certain immediate outputs and longer-term outcomes are associated with every KPA.

**Institutionalizing Practices:** Certain practices must be mastered and institutionalized into the IA activity to achieve a particular KPA. The model is not intended to be prescriptive in terms of how a process should be carried out, but rather what should be done. Institutionalizing practices for a particular IA activity will vary depending on the external environment, the organization's nature and complexity, and the attributes of the IA activity.

For illustrative purposes and clarity, some examples of institutionalizing practices are provided for each KPA. The examples identify various ways of implementing the KPA, but are not intended to be prescriptive or exhaustive.

### 3.2.5 Achieving a Capability Level

Achieving a given capability level involves mastering all of the KPAs found in the elements included in that level and ensuring that these KPAs are institutionalized within the IA activity. Institutionalizing KPAs at one level establishes the basis for practices and capabilities at the next level.



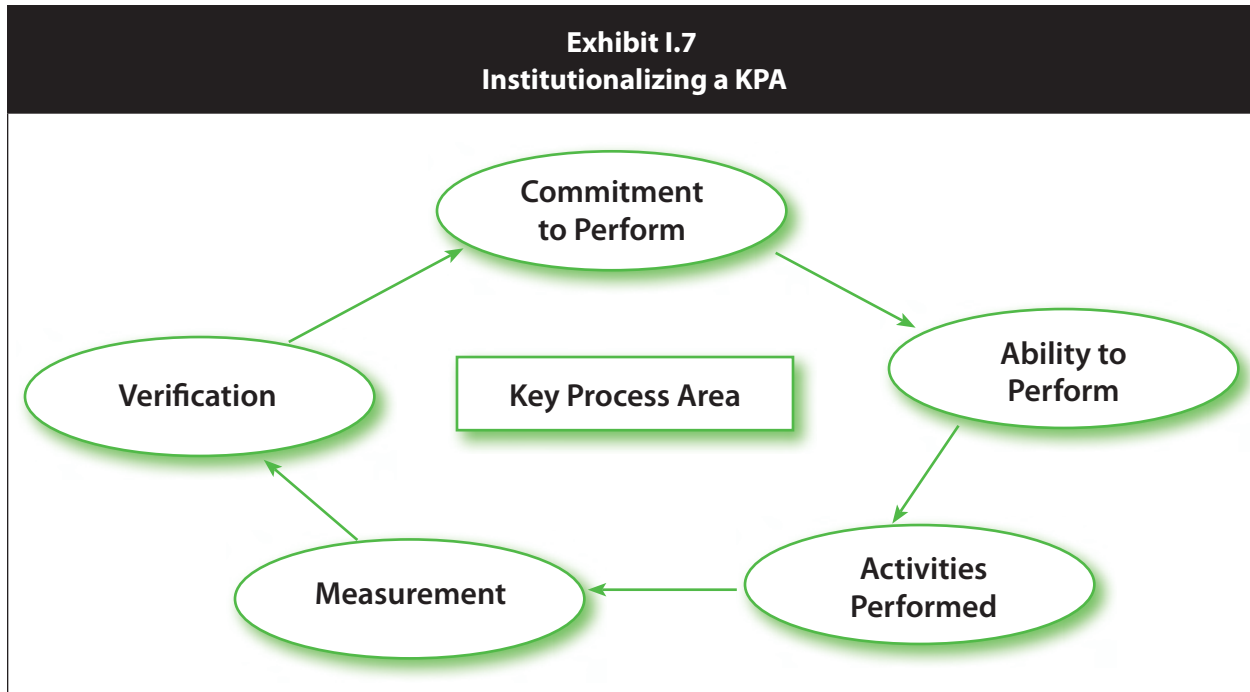
All KPAs, up to and including the KPAs at a given level, must be mastered and institutionalized to achieve that level.

**Mastering KPAs:** As noted in Exhibit I.6, once an IA activity has done the necessary work to realize the outputs and outcomes associated with a KPA, it has mastered that KPA.

**Institutionalizing KPAs:** In addition to mastering the KPA, the IA activity must institutionalize the KPA by incorporating the essential activities associated with it into the culture of the IA activity. In this way, the KPA will be sustainable and repeatable and become a basic building block that contributes to reaching a particular capability level.



**Common Features:** Institutionalizing a KPA requires that certain common features, which describe the activities and infrastructure supportive of institutionalization, are present. The five types of common features include: commitment to perform, ability to perform, activities performed, measurement, and verification.



### 3.2.6 Common Features

Exhibit I.7 identifies the five types of common features: commitment to perform, ability to perform, activities performed, measurement, and verification. They describe means to institutionalize and ensure the sustainability of the KPA.

**Commitment to perform** is the commitment to master the KPAs associated with reaching a particular capability level. It can include developing *policies* — policy statements generally refer to establishing, maintaining, and following a documented organizational policy for supporting the essential activities of a particular KPA. This emphasizes the importance of organizational commitment. Also included in this common feature is *sponsorship* through support by senior management. Clearly, senior management support is an important element in developing strong internal audit capabilities.

Senior management support is an important factor in developing strong internal audit capabilities.

**Ability to perform** relates to the ability to carry out the essential **activities** competently. It could reflect the need for appropriate *resources* (for example, human resources, dollars, time, and access to specialized skills and appropriate tools, including technology-based tools). It may also address having a *plan* in place to carry out the activity, assigning *responsibility* to carry out the plan, and providing appropriate *training and development*.

Examples of common features relating to “commitment to perform” and “ability to perform” are provided as “Institutionalizing Practice Examples” for each KPA.

The **activities performed** feature describes implementation activities. Because the activities performed are specific to a KPA, the IA-CM identifies them separately for each KPA as “essential activities.”

The key practices undertaken for the common features of measurement and verification are generally the same for each KPA. For example, **measurement** refers to *ongoing measurement and analysis* of activities and progress in achieving the KPA’s purpose. **Verification** includes *continuous verification* to ensure that activities have been carried out in accordance with established policies and procedures. This could include independent review, management review, or senior management oversight.

Through the presence of such common features, a climate is provided that contributes to and supports a foundation for reaching an internal audit capability level appropriate to the organization.

### **3.3 Key Process Areas by Internal Audit Element**

KPAs at each level in each element build upon one another and establish the foundation for implementing a KPA at a higher level. For example, in the element Services and Role of Internal Auditing, once the IA activity has institutionalized Compliance Auditing, that KPA will continue to be performed even as other KPAs at higher capability levels (Performance/Value-for-Money Audits and Advisory Services) are also performed.

Exhibit I.8 identifies the purposes for each KPA in each element by level to demonstrate the relationships among the KPAs in each element and how they build upon one another as the capability of internal auditing increases from Level 1 – Initial to Level 5 – Optimizing.

<b>Exhibit I.8 Purposes of KPAs by Internal Audit Element</b>	
<b>Services and Role of Internal Auditing</b>	
<b>5 – Optimizing</b>	<p><b>Internal Auditing Recognized as Key Agent of Change</b></p> <p><b>Purpose</b> To have sufficiently developed the professional and leadership capacity of the IA activity to provide foresight and serve as a catalyst to achieve positive change in the organization.</p>
<b>4 – Managed</b>	<p><b>Overall Assurance on Governance, Risk Management, and Control</b></p> <p><b>Purpose</b> To conduct sufficient work to provide an opinion on the overall adequacy and effectiveness of the organization’s governance, risk management, and control processes. The IA activity has coordinated its audit services to be sufficiently comprehensive that it can provide reasonable assurance at a corporate level that these processes are adequate and functioning as intended to meet the organization’s objectives.</p>
<b>3 – Integrated</b>	<p><b>Advisory Services</b></p> <p><b>Purpose</b> To analyze a situation and/or provide guidance and advice to management. Advisory services add value without the internal auditor assuming management responsibility. Advisory services are those that are directed toward facilitation rather than assurance and include training, systems development reviews, performance and control self-assessment, counseling, and advice.</p> <p><b>Performance/Value-for-Money Audits</b></p> <p><b>Purpose</b> To assess and report on the efficiency, effectiveness, and economy of operations, activities, or programs; or conduct engagements on governance, risk management, and control. Performance/value-for-money auditing covers the full spectrum of operating and business processes, the associated management controls, and the results achieved. Program effectiveness auditing is sometimes called “program evaluation.”</p>
<b>2 – Infrastructure</b>	<p><b>Compliance Auditing</b></p> <p><b>Purpose</b> To carry out an audit of conformity and adherence of a particular area, process, or system to policies, plans, procedures, laws, regulations, contracts, or other requirements that govern the conduct of the area, process, or system subject to audit.</p>
<b>1 – Initial</b>	<p><b>No KPAs</b> Isolated single audits or reviews of documents and transactions for accuracy and compliance.</p>

<b>Exhibit I.8 (continued)</b> <b>Purposes of KPAs by Internal Audit Element</b>	
<b>People Management</b>	
<b>5 – Optimizing</b>	<p><b>Leadership Involvement with Professional Bodies</b></p> <p><b>Purpose</b> To facilitate and support top leaders of the IA activity becoming key leaders within relevant professional bodies. In addition to making contributions to the profession through their volunteer work, the CAE and other internal auditors will become thought leaders and influence the growth and evolution of the profession. Participating in the administration and/or leadership of professional bodies helps auditors learn and practice higher-level people skills, since their roles vis-à-vis their colleagues require different means of interacting from their “auditor” or “manager” role within their own organization.</p> <p><b>Workforce Projection</b></p> <p><b>Purpose</b> To coordinate long-term workforce development activities to meet future business needs of the IA activity. Workforce projection involves developing a strategic workforce plan that sets out the IA activity’s objectives for competency development and workforce activities in conjunction with the organization’s projected strategic needs, and developing plans to guide workforce development activities for the IA activity.</p>
<b>4 – Managed</b>	<p><b>Internal Auditing Contributes to Management Development</b></p> <p><b>Purpose</b> To integrate the development of the organization’s managers with the training and experiences of the IA activity and vice versa. The organization and the IA activity pursue a strategy to encourage people with a good understanding of governance, risk management, and controls to work and contribute throughout the organization.</p> <p><b>IA Activity Supports Professional Bodies</b></p> <p><b>Purpose</b> To provide leadership and professional development opportunities for the internal audit staff by supporting their involvement and participation in professional bodies.</p> <p><b>Workforce Planning</b></p> <p><b>Purpose</b> To coordinate workforce activities to achieve current business needs of the IA activity. Workforce planning involves developing a workforce plan that sets out the resources, skills, training, and tools required to conduct the audits that have been identified (or are proposed) in the periodic audit and services plan.</p>

<b>Exhibit I.8 (continued)</b> <b>Purposes of KPAs by Internal Audit Element</b>	
<b>People Management (continued)</b>	
<b>3 – Integrated</b>	<p><b>Team Building and Competency</b></p> <p><b>Purpose</b> To develop staff members’ capacity to function effectively in a team environment, beginning with focus on the individual project team. Because many public sector audits cover scopes that require the concerted effort of a team of auditors to conduct, and because the skills needed to conduct an audit are not necessarily the same skills to work effectively in a group environment, additional team competencies are required.</p> <p><b>Professionally Qualified Staff</b></p> <p><b>Purpose</b> To staff the IA activity with professionally qualified staff and retain the individuals who have demonstrated a minimum level of competence.</p> <p><b>Workforce Coordination</b></p> <p><b>Purpose</b> To coordinate the development of the periodic audit and services plan to the human resource levels authorized to the IA activity. Because resources are often constrained, the IA activity needs to use appropriate methods to set priorities on planned projects and services to limit its commitments to a “doable” quantity and type of projects and services.</p>
<b>2 – Infrastructure</b>	<p><b>Individual Professional Development</b></p> <p><b>Purpose</b> To ensure that internal auditors continuously maintain and enhance their professional capabilities.</p> <p><b>Skilled People Identified and Recruited</b></p> <p><b>Purpose</b> To identify and attract people with the necessary competencies and relevant skills to carry out the work of the IA activity. Appropriately qualified and recruited internal auditors are more likely to provide credibility to the internal audit results.</p>
<b>1 – Initial</b>	<p><b>No KPAs</b> Outputs are dependent upon the skills of specific individuals holding the position.</p>

<b>Exhibit I.8 (continued)</b> <b>Purposes of KPAs by Internal Audit Element</b>	
<b>Professional Practices</b>	
<b>5 – Optimizing</b>	<p><b>Continuous Improvement in Professional Practices</b></p> <p><b>Purpose</b> To integrate the performance data, global leading practices, and feedback received from ongoing quality assurance and improvement program processes to continuously strengthen and develop the IA activity’s capacity to deliver world-class internal auditing.</p> <p><b>Strategic Internal Audit Planning</b></p> <p><b>Purpose</b> To understand the organization’s strategic directions and emerging issues and risks, and change the IA activity’s skill sets and audit services to meet potential future needs.</p>
<b>4 – Managed</b>	<p><b>Audit Strategy Leverages Organization’s Management of Risk</b></p> <p><b>Purpose</b> To link the IA activity’s periodic audit and services plan with the organization’s enterprise risk management strategies and practices.</p>
<b>3 – Integrated</b>	<p><b>Quality Management Framework</b></p> <p><b>Purpose</b> To establish and maintain processes to continuously monitor, assess, and improve the effectiveness of the IA activity. Processes include ongoing internal monitoring of the performance of the IA activity as well as periodic internal and external quality assessments.</p> <p><b>Risk-based Audit Plans</b></p> <p><b>Purpose</b> To systematically assess risks and focus the priorities of the IA activity’s periodic audit and services plan on risk exposures throughout the organization.</p>
<b>2 – Infrastructure</b>	<p><b>Professional Practices and Processes Framework</b></p> <p><b>Purpose</b> To help facilitate the performance of audit engagements with the independence and objectivity, and proficiency and due professional care envisaged in the internal audit charter and The IIA’s Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i>. The professional practices and processes framework includes the policies, processes, and procedures that will guide the IA activity in managing its operations; developing its internal audit work program; and planning, performing, and reporting on the results of internal audits.</p> <p><b>Audit Plan Based on Management/Stakeholder Priorities</b></p> <p><b>Purpose</b> To develop periodic (annual or multiyear) plans for which audits and/or other services will be provided, based on consultations with management and/or other stakeholders.</p>
<b>1 – Initial</b>	<p><b>No KPAs</b> No specific professional practices established other than those provided by professional associations.</p>

<b>Exhibit I.8 (continued)</b> <b>Purposes of KPAs by Internal Audit Element</b>	
<b>Performance Management and Accountability</b>	
<b>5 – Optimizing</b>	<p><b>Public Reporting of Internal Audit Effectiveness</b></p> <p><b>Purpose</b> To report publicly on the effectiveness of the IA activity to demonstrate transparency and accountability to the organization’s stakeholders and the public, and identify the contribution and impact made by the IA activity with the resources provided.</p>
<b>4 – Managed</b>	<p><b>Integration of Qualitative and Quantitative Performance Measures</b></p> <p><b>Purpose</b> To enable the IA activity to use information on performance to measure and monitor fluctuations that affect its results. The activity has balanced its use of quantitative and qualitative data to help it achieve its strategic objectives.</p>
<b>3 – Integrated</b>	<p><b>Performance Measures</b></p> <p><b>Purpose</b> In addition to cost data, to develop meaningful indicators and measures that enable the IA activity to measure and report on its performance and routinely monitor its progress against targets to ensure that results are achieved as economically and efficiently as possible. These will be primarily process and input measures, and some output or qualitative outcome measures.</p> <p><b>Cost Information</b></p> <p><b>Purpose</b> To provide sufficient information from the financial tracking system so that the IA activity understands the cost information sufficiently to use it to manage its services as economically and efficiently as possible. This practice goes slightly beyond budget variances and integrates the relationship of outputs to inputs.</p> <p><b>Internal Audit Management Reports</b></p> <p><b>Purpose</b> To receive and use information to manage the IA activity’s day-to-day operations, support decision-making, and demonstrate accountability.</p>
<b>2 – Infrastructure</b>	<p><b>Internal Audit Operating Budget</b></p> <p><b>Purpose</b> To be allocated and use its own operating budget to plan the services of the IA activity.</p> <p><b>Internal Audit Business Plan</b></p> <p><b>Purpose</b> To establish a periodic plan for delivering the services of the IA activity, including administrative and support services, and the expected results.</p>
<b>1 – Initial</b>	<p><b>No KPAs</b> Ad hoc and unstructured; funding approved by management, as needed.</p>

<b>Exhibit I.8 (continued)</b> <b>Purposes of KPAs by Internal Audit Element</b>	
<b>Organizational Relationships and Culture</b>	
<b>5 – Optimizing</b>	<p><b>Effective and Ongoing Relationships</b></p> <p><b>Purpose</b> To use strong relationship management skills of the CAE for maintaining appropriate visibility and alignment with key stakeholders, management, and audit committee needs and expectations.</p>
<b>4 – Managed</b>	<p><b>CAE Advises and Influences Top-level Management</b></p> <p><b>Purpose</b> To facilitate the organization’s understanding and appreciation of the vision, leadership, and foresight of the CAE, and to develop a relationship with top-level management that fosters frank exchanges. Senior management values the CAE for advice on strategic issues.</p>
<b>3 – Integrated</b>	<p><b>Coordination with Other Review Groups</b></p> <p><b>Purpose</b> To share information and coordinate activities with other internal and external providers of assurance and advisory services to ensure appropriate organizational coverage and minimize duplication of effort.</p> <p><b>Integral Component of Management Team</b></p> <p><b>Purpose</b> To participate in the organization’s management activities in some form as a valued member of the management team. Although the CAE does not carry out management’s responsibilities, he or she is included in communications and forums of the management team, and as an observer, is able to maintain a channel of communication with senior management.</p>
<b>2 – Infrastructure</b>	<p><b>Managing within the IA Activity</b></p> <p><b>Purpose</b> To focus the management effort of the IA activity on its own operations and relationships within the activity itself, such as organizational structure, people management, budget preparation and monitoring, annual planning, providing the necessary audit tools and technology, and performing audits. Interactions with organizational managers are focused on carrying out the business of the IA activity.</p>
<b>1 – Initial</b>	<p><b>No KPAs</b> Absence of IA activity infrastructure.</p>



<b>Exhibit I.8 (continued)</b> <b>Purposes of KPAs by Internal Audit Element</b>	
<b>Governance Structures</b>	
<b>5 – Optimizing</b>	<p><b>Independence, Power, and Authority of the IA Activity</b></p> <p><b>Purpose</b> To fully actualize the IA activity’s independence, power, and authority.</p>
<b>4 – Managed</b>	<p><b>Independent Oversight of the IA Activity</b></p> <p><b>Purpose</b> To establish an oversight body, including members independent of the organization’s management, to assure the independence of the IA activity, broaden the activity’s scope of input and influence, and help strengthen the organization’s accountability.</p> <p><b>CAE Reports to Top-level Authority</b></p> <p><b>Purpose</b> To strengthen the CAE’s independence by establishing a direct functional reporting relationship to the governing body and a direct administrative reporting relationship to either the CEO or governing body.</p>
<b>3 – Integrated</b>	<p><b>Management Oversight of the IA Activity</b></p> <p><b>Purpose</b> To establish a mechanism/process within the organization to provide oversight and advice, and review the results of the IA activity to strengthen its independence and ensure appropriate action is taken. Involvement of a variety of managers in the decisions related to the IA activity helps to extend the activity’s support and scope beyond a single individual.</p> <p><b>Funding Mechanisms</b></p> <p><b>Purpose</b> To establish a robust and transparent funding process that ensures adequate resources to allow the IA activity to discharge its obligations.</p>
<b>2 – Infrastructure</b>	<p><b>Full Access to the Organization’s Information, Assets, and People</b></p> <p><b>Purpose</b> To provide the authority for the IA activity to obtain access to all the information, assets, and people that it requires to carry out its duties.</p> <p><b>Reporting Relationships Established</b></p> <p><b>Purpose</b> To establish formal reporting relationships (administrative and functional) for the IA activity.</p>
<b>1 – Initial</b>	<p><b>No KPAs</b> Auditors are likely part of a larger organizational unit.</p>

## **4. Selected Bibliography and Resource Links<sup>4</sup>**

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<sup>4</sup>During each of the IA-CM validations conducted globally, applicable documents and Web sites relating to the government or external environment, the specific organization, and the IA activity itself were reviewed to substantiate the KPAs institutionalized in each element of the IA-CM and assess the capability level achieved by the IA activity. These documents and Web sites are noted in the individual IA-CM validation reports provided to the validation participants. Some of the more generic documents and Web sites have been included in this "Selected Bibliography and Resource Links." Also, for reference, some examples of country-specific legislation and documents reviewed as part of the validation process are highlighted in Annex A of the Application Guide.

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*Internal Audit Capability Model (IA-CM) for the Public Sector*

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